

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.



\$250,000,000
City of Newport Beach
Refunding Revenue Bonds
(Hoag Memorial Hospital Presbyterian)
Series 2008

\$80,000,000
Series 2008D

\$80,000,000
Series 2008E

\$90,000,000
Series 2008F

Price: 100%

Dated: Date of Delivery

Due: As shown on the inside cover

The City of Newport Beach Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008D (the "Series 2008D Bonds"), Series 2008E (the "Series 2008E Bonds") and Series 2008F (the "Series 2008F Bonds") and collectively with the Series 2008D Bonds and the Series 2008E Bonds, the "Bonds" and each a "Series" of Bonds) will be issued only in initial denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), under the book-entry only system maintained by DTC. So long as Cede & Co. is the registered owner of the Bonds, (i) principal of, premium, if any, and interest on the Bonds will be payable directly to DTC, which in turn will remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as more fully described herein, and (ii) all notices, including any notice of redemption or notice of conversion to another Interest Rate Period, shall be mailed only to Cede & Co. See "THE BONDS-Book-Entry-Only System" herein. Concurrently with the Bonds offered hereby, the City expects to issue for the benefit of Hoag Memorial Hospital Presbyterian ("Hoag Hospital") additional variable rate bonds (the "Additional 2008 Bonds"). The Bonds and the Additional 2008 Bonds are being issued to refund certain outstanding auction rate securities issued by the City for the benefit of Hoag Hospital in 2005 and 2007. See "PLAN OF REFUNDING."

The Bonds will accrue interest from the Date of Delivery and initially will bear interest at a Weekly Interest Rate. During the Weekly Interest Rate Period, interest is payable on the first Wednesday of each calendar month, or, if such Wednesday is not a Business Day the next succeeding Business Day, commencing, June 4, 2008. At the election of Hoag Hospital, a Series of Bonds may be converted, in whole, to other Interest Rate Periods in accordance with the Bond Indenture. **This Official Statement describes certain terms of each Series of Bonds applicable while such Series accrues interest at Weekly Interest Rates. There are significant changes in the terms of the Bonds while such Bonds accrue interest in other Interest Rate Periods. This Official Statement is not intended to provide information with respect to any Series of Bonds other than Bonds that bear interest at Weekly Interest Rates.**

The Bonds are limited obligations of the City of Newport Beach (the "City"), secured under the provisions of the Bond Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by Hoag Hospital under the Loan Agreement and from certain funds held under the Bond Indenture. The obligation of Hoag Hospital to make such payments is evidenced and secured by Obligation No. 5 issued under the Master Indenture, described herein, whereunder the members of the obligated group (the "Obligated Group"), in which Hoag Hospital is the Credit Group Representative, are obligated to make payments on Obligation No. 5 in amounts sufficient to pay principal of and premium, if any, and interest on the Bonds when due.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM PAYMENTS REQUIRED TO BE MADE BY HOAG HOSPITAL PURSUANT TO THE LOAN AGREEMENT AND OBLIGATION NO. 5 ISSUED PURSUANT TO THE MASTER INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE CITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 5 AND THE BOND INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

The Bonds are subject to optional, mandatory sinking fund and extraordinary optional redemption prior to their stated maturity and to optional and mandatory tender for purchase and remarketing in certain circumstances, as described herein.

The Bonds are supported initially by an irrevocable, direct-pay letter of credit (the "Letter of Credit"), being issued in the name of the Bond Trustee concurrently with the issuance of the Bonds by Bank of America, N.A.



The Letter of Credit will permit the Bond Trustee to draw, with respect to the Bonds, an amount sufficient to pay the aggregate principal of and up to 35 days' accrued interest on and Purchase Price of each Series of the Bonds (at an assumed maximum interest rate of 12% per annum). The Letter of Credit will expire on May 22, 2013, unless terminated earlier or extended, as provided therein.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if received by the Underwriter, subject to prior sale and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, the approval of certain matters for the City by the City Attorney, for Hoag Hospital by Stradling Yocca Carlson & Rauth, a Professional Corporation, and for the Underwriter by its counsel, Foley & Lardner LLP, Chicago, Illinois. Certain legal matters will be passed upon for the letter of credit provider by John S. Barry, Assistant General Counsel, Bank of America, N.A. Legal Department and by Morrison & Foerster LLP special counsel to such provider. It is expected that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about May 22, 2008.

Citi

Date: May 20, 2008

† For an explanation of the ratings, see "RATINGS" herein.

MATURITY SCHEDULE

\$250,000,000

**City of Newport Beach
Refunding Revenue Bonds
(Hoag Memorial Hospital Presbyterian)
Series 2008**

Series 2008D Bonds

Maturity Date <u>(December 1)</u>	Principal <u>Amount</u>
2040	\$80,000,000

Series 2008E Bonds

Maturity Date <u>(December 1)</u>	Principal <u>Amount</u>
2040	\$80,000,000

Series 2008F Bonds

Maturity Date <u>(December 1)</u>	Principal <u>Amount</u>
2040	\$90,000,000

The information relating to the City contained herein under the headings “THE CITY” and “LITIGATION — The City” has been furnished by the City. The information set forth herein under the headings “THE BANK, THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT” has been furnished by Bank of America, N.A. (the “Bank”). The information relating to DTC and the Book-Entry-Only System has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City, Hoag Hospital and its affiliates or Citigroup Global Markets Inc. (the “Underwriter”). Other information contained herein has been obtained from Hoag Hospital and other sources (other than the City) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness and is not to be relied upon or construed as a promise or representation by the City or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other Person has been authorized by the City, Hoag Hospital or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any Person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale made hereunder shall create under any circumstances any implication that there has been no change in the affairs of the City, Hoag Hospital, DTC or the Bank since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS AND OBLIGATION NO. 5 HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND NEITHER THE BOND INDENTURE NOR THE MASTER INDENTURE HAVE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “BONDHOLDERS’ RISKS,” and APPENDIX A — “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES — FACILITIES DESIGN AND CONSTRUCTION,” “ — SELECTED UTILIZATION AND FINANCIAL INFORMATION — Management’s Discussion and Analysis of Financial Information” and “ — POTENTIAL AFFILIATIONS AND TRANSACTIONS” in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Hoag Hospital does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

\$250,000,000

**City of Newport Beach
Refunding Revenue Bonds
(Hoag Memorial Hospital Presbyterian)
Series 2008**

**\$80,000,000
Series 2008D**

**\$80,000,000
Series 2008E**

**\$90,000,000
Series 2008F**

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Terms used in this Official Statement, including the Appendices, and not otherwise defined have the same meanings as in the Bond Indenture (as defined below) or if not defined therein in the Master Indenture (as defined below). See APPENDIX C — “SUMMARY OF PRINCIPAL DOCUMENTS — Definitions of Certain Terms.”

Purpose of the Official Statement

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of the following Series of Bonds issued by the City of Newport Beach (the “City”): \$80,000,000 aggregate principal amount of the Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008D (the “Series 2008D Bonds”), \$80,000,000 aggregate principal amount of the Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008E (the “Series 2008E Bonds”) and \$90,000,000 aggregate principal amount of the Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008F (the “Series 2008F Bonds”). The Series 2008D Bonds, the Series 2008E Bonds and the Series 2008F Bonds, collectively, are referred to herein as the “Bonds” and each series as a “Series” of Bonds.

The Bonds will be issued pursuant to and secured by a bond indenture (the “Bond Indenture”), dated as of May 1, 2008, between the City and Wells Fargo Bank, National Association, as bond trustee (the “Bond Trustee”). The City will lend the proceeds of the Bonds to Hoag Hospital, which loan will be evidenced by a Loan Agreement, dated as of May 1, 2008 (the “Loan Agreement”), between the City and Hoag Hospital. The Bond Trustee will also serve as Tender Agent for the Bonds.

The Obligated Group and the Master Indenture

Hoag Memorial Hospital Presbyterian is a California nonprofit public benefit corporation which owns and operates a general acute care hospital in Newport Beach, California (both the corporation and the facility are referred to as “Hoag Hospital”). Hoag Hospital is licensed to operate a total of 498 general acute care beds. Newport Healthcare Center, LLC (“NHC”), a wholly-owned subsidiary of Hoag Hospital, owns and expects to operate a medical office complex providing outpatient services, physician office space and administrative functions. For a description of Hoag Hospital and NHC, their facilities and financial performance, see APPENDIX A — “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES.”

As of the date of the issuance of the Bonds, Hoag Hospital and NHC are the only Members (defined below) of the Obligated Group (the “Obligated Group”) established under the Master Indenture

dated as of May 1, 2007, between Hoag Hospital and Wells Fargo Bank, National Association, as master trustee (the Master Trustee"). Other entities may become members of the Obligated Group (each, a "Member") in accordance with the procedures set forth in the Master Indenture. Each Member of the Obligated Group is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture, including Obligation No. 5 (as hereinafter defined), which will evidence and secure the loan of the proceeds of the Bonds from the City to Hoag Hospital. In addition, Hoag Hospital will secure its reimbursement obligations to the Bank with respect to the Letter of Credit under Obligation No. 6 to be issued under the Master Indenture, certain interest rate swap agreements and \$172,950,000 in indebtedness incurred in 2007 (described below) with Obligations entitled to certain benefits of the Master Indenture. For more information about Hoag Hospital and its affiliates, see APPENDIX A — "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES — GENERAL" and APPENDIX B-1 — "FINANCIAL STATEMENTS OF HOAG MEMORIAL HOSPITAL PRESBYTERIAN AND OTHER AFFILIATES."

Under the Master Indenture, Hoag Hospital, as Credit Group Representative, may designate "Designated Affiliates" from time to time and rescind any such designation at any time. Designated Affiliates are not obligated to make payments with respect to Obligation No. 5 or any other Master Indenture Obligations issued under the Master Indenture, but may be required to pay or otherwise transfer to the Credit Group Representative amounts necessary to enable Hoag Hospital to pay when due the principal of and premium, if any, and interest on Outstanding Master Indenture Obligations. No entities have been designated as of the date hereof as Designated Affiliates.

Provision is made in the Master Indenture for adding Members to the Obligated Group and for the withdrawal of Members from the Obligated Group under certain circumstances. For more information, see APPENDIX C — "SUMMARY OF PRINCIPAL DOCUMENTS — MASTER INDENTURE — Membership in the Obligated Group" and "— Withdrawal From the Obligated Group." Hoag Hospital, NHC and any other party, upon becoming a Member of the Obligated Group under the Master Indenture, are herein sometimes collectively referred to as the "Obligated Group," "Obligated Group Members" or the "Members of the Obligated Group" and individually as a "Member of the Obligated Group" or an "Obligated Group Member."

Weekly Interest Rate

Each Series of Bonds initially will bear interest at Weekly Interest Rates. During the Weekly Interest Rate Period, interest is payable on the first Wednesday of each calendar month, or, if such Wednesday is not a Business Day the next succeeding Business Day, commencing, June 4, 2008. A Series of Bonds may be converted, in whole, to other Interest Rate Periods in accordance with the Bond Indenture. See "THE BONDS" and APPENDIX C — "SUMMARY OF PRINCIPAL DOCUMENTS — BOND INDENTURE."

The Bonds are subject to optional, mandatory sinking fund and extraordinary optional redemption prior to their stated maturity and to optional and mandatory tender for purchase and remarketing in certain circumstances, all as described herein. See "THE BONDS — Redemption," "— Mandatory Tender," and "— Optional Tender" herein.

Security for the Bonds

Each Series of Bonds will be payable from payments made by Hoag Hospital under the Loan Agreement (the "Loan Repayments"). The Loan Repayments are secured by payments made by the Members of the Obligated Group on Obligation No. 5 (defined below) and from certain funds held under the Bond Indenture.

In order to secure the obligation of Hoag Hospital to make payments under the Loan Agreement, Hoag Hospital will deliver to the Bond Trustee its Master Indenture Obligation No. 5 (“Obligation No. 5”) issued pursuant to the Master Indenture, as supplemented and amended by the Supplemental Master Indenture for Obligation No. 5, dated as of May 1, 2008, between Hoag Hospital, as Credit Group Representative and the Master Trustee (“Supplement No. 5”). Pursuant to the Master Indenture, Hoag Hospital and NHC and any future Members of the Obligated Group agree to make payments on Obligation No. 5 in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on each Series of Bonds. Each Member of the Obligated Group is jointly and severally obligated to make payments on all Master Indenture Obligations issued under the Master Indenture, including Obligation No. 5. The Members of the Obligated Group receive a credit on payments due on Obligation No. 5 to the extent of payments made by Hoag Hospital under the Loan Agreement. Obligation No. 5 will entitle the Bond Trustee, as the holder thereof, to the benefit of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. As of the date of issuance and delivery of the Bonds, Hoag Hospital and NHC are the only Members of the Obligated Group.

The Initial Letter of Credit

The Bonds will be issued as variable rate bonds initially bearing interest at a Weekly Interest Rate. While the Bonds are in the Weekly Interest Rate Period, payment of the principal and Purchase Price of, and interest on the Bonds will be supported initially by an irrevocable, direct-pay letter of credit (the “Letter of Credit”) issued by Bank of America, N.A. (the “Bank”), pursuant to and subject to the terms of a Letter of Credit Agreement, dated as of May 22, 2008 (the “Reimbursement Agreement”), among Hoag Hospital, the Bank, as issuer of the Letter of Credit (the “Bank”), certain Lenders and the Bank, as Administrative Agent thereunder. The Letter of Credit will permit the Bond Trustee, in accordance with the terms thereof, to draw an amount sufficient to pay (a) the aggregate principal amount of, or the portion of the Purchase Price constituting principal of, each Series of Bonds, plus (b) the interest on, or the portion of the Purchase Price constituting interest on, each series of Bonds up to 35 days’ interest at a maximum annual interest rate of 12% based on a 365-day year for the actual number of days elapsed. The Letter of Credit will expire on May 22, 2013, unless extended or earlier terminated pursuant to its provisions as more fully described herein and may, under certain circumstances, be replaced by a substitute letter of credit. See “SECURITY AND SOURCES OF PAYMENT,” “THE BANK” and “LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT” herein. In such event, the Bonds are subject to a mandatory tender for purchase. See “THE BONDS-Mandatory Tender” herein.

So long as a Letter of Credit is in effect, the provider of such Letter of Credit shall, upon the occurrence of an event of default, control the exercise of the rights and remedies of the Holders of the Bonds.

Remarketing Agent

Hoag Hospital has appointed Citigroup Global Markets Inc. as Remarketing Agent (the “Remarketing Agent”) for each Series of Bonds under the Bond Indenture. The Remarketing Agent currently maintains an office at 390 Greenwich Street, 2nd Floor, New York, NY 10013, Attn: Manager, Short-Term Financial Group. The Remarketing Agent may be removed or replaced by Hoag Hospital, or Hoag Hospital may appoint an additional Remarketing Agent for a particular Series of Bonds, at any time, subject to the terms and conditions of the Bond Indenture and the Remarketing Agreement, dated as of May 22, 2008 (the “Remarketing Agreement”), between Hoag Hospital and the Remarketing Agent.

Tender Agent and Bond Trustee

The City, at the request of Hoag Hospital, has appointed Wells Fargo Bank, National Association to serve as tender agent (the “Tender Agent”) under the Bond Indenture in addition to serving as Bond Trustee. The corporate trust office of the Tender Agent and Bond Trustee for purposes of notices is

currently located at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017. The corporate trust office of the Tender Agent and Trustee for purposes of the payment, redemption, exchange, transfer, surrender and cancellation of the Bonds is currently located at Corporate Trust Services, Northstar East Building, 608 2nd Avenue South, 12th Floor, Minneapolis, Minnesota 55479, if Bonds are being delivered by hand at MACN9303-121, Corporate Trust Operations, Sixth & Marquette Avenue, Minneapolis, Minnesota 55479-0113, if Bonds being delivered by Air Carrier, and at MACN9303-121, Corporate Trust Operations, P.O. Box 1517, Minneapolis, Minnesota 55480-1517, if Bonds are being delivered by United States mail. The Tender Agent may be removed or replaced with respect to the Bonds at any time, subject to the terms and conditions of the Bond Indenture.

Plan of Refunding

Hoag Hospital will use the proceeds of the Bonds to (a) refinance the 2007 Refunded Bonds identified under the caption “PLAN OF REFUNDING,” and (b) pay certain of the costs of issuing the Bonds. In addition, Hoag Hospital will use the proceeds of the Additional 2008 Bonds identified under the caption “PLAN OF REFUNDING” to (a) refinance the 2005 Bonds identified under the caption “PLAN OF REFUNDING,” and (b) pay certain of the costs of issuing the Additional 2008 Bonds. For a description of the plan of refunding in connection with the Bonds and the Additional 2008 Bonds, see “PLAN OF REFUNDING” herein.

THE CITY

The City of Newport Beach, California was incorporated in 1906. The City operates under a freeholder’s charter providing for a Council-Manager form of government with a Council-member City Council. Councilpersons are elected by district for four-year terms, and the Mayor is elected by the Council from among its members. On February 13, 1984, the City Council adopted the “Health Care Facility Revenue Bond Ordinance” (the “Law”) establishing a method and powers and procedures whereby revenue bonds may be issued for the purpose of providing financing to participating health institutions for specified purposes.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Bond Indenture for all of the provisions relating to each Series of Bonds. The discussion herein is qualified by such reference.

This Official Statement describes certain terms of each Series of Bonds applicable while such Series accrue interest at Weekly Interest Rates. There are significant changes in the terms of the Bonds while such Bonds accrue interest in other Interest Rate Periods. This Official Statement is not intended to provide information with respect to any Series of Bonds other than Bonds that bear interest at Weekly Interest Rates.

General

The Bonds will be issued in the aggregate principal amount set forth on the cover of this Official Statement. Purchases of each Series of Bonds will be made in book-entry only form in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof while such Series of Bonds bears interest at a Weekly Interest Rate. The Bonds will be delivered in fully registered form without coupons. Each Series of the Bonds will be dated their date of delivery and will be payable as to principal, subject to the redemption and mandatory tender provisions set forth herein, on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository

Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. See “THE BONDS – Book-Entry Only System.”

Each Series of Bonds will accrue interest from the Date of Delivery and initially will bear interest at a Weekly Interest Rate. During the Weekly Interest Rate Period, interest is payable on the first Wednesday of each calendar month, or, if such Wednesday is not a Business Day the next succeeding Business Day, commencing, June 4, 2008. The interest rate on each Series of Bonds may be converted in accordance with the Bond Indenture to bear interest at an Auction Rate, Bond Interest Term Rates, a Serial Bond Interest Rate or Weekly Interest Rate. This Official Statement generally describes the Bonds while they bear interest at a Weekly Interest Rate. If the Interest Rate Period for the Bonds of a Series is converted to a different Interest Rate Period, Hoag Hospital may supplement this Official Statement or deliver a new official statement describing the new Interest Rate Period.

While the Bonds are book-entry bonds, as described below, payment of the principal and tender price of, premium, if any, and interest on the Bonds will be made by wire transfer to The Depository Trust Company, New York, New York (“DTC”), to the account of Cede & Co. In the event the Bonds are no longer book-entry bonds, principal and tender price of and premium, if any, on the Bonds will be payable at the designated corporate trust office of the Bond Trustee, and interest payments on the Bonds are to be made by check mailed on the date due by the Bond Trustee to the registered owners of such Bonds as of the Record Date (as defined below); provided, however, that, if a Holder of \$1,000,000 or more aggregate outstanding principal amount of the Bonds gives the Bond Trustee written notice of such holding accompanied by sufficient wire transfer instructions, the payments of interest on such Bonds (other than the final payment of principal thereof) will be payable by wire transfer of immediately available funds on the date due. The “Record Date” means with respect to any Bonds bearing interest at a Weekly Interest Rate the Business Day immediately preceding the related Interest Payment Date. See “THE BONDS – Book-Entry Only System.”

Weekly Interest Rate Period

General. During any Weekly Interest Rate Period for a Series of the Bonds, interest on such Bonds will be payable on each Interest Payment Date for such Series of Bonds for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period). Interest shall be computed on the basis of a 365- or 366- day year, as the case may be, for the actual number of days elapsed. The term “Interest Accrual Date” means with respect to any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day). The term “Interest Payment Date” means with respect to any Weekly Interest Rate Period, the first Wednesday of each calendar month or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day.

Weekly Interest Rate Period. During each Weekly Interest Rate Period with respect to a Series of Bonds, the Bonds of such Series shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during such Weekly Interest Rate Period, or if such day shall not be a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the

Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period. The Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell such Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. In the event that the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week shall be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. In the event that the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or in the event that the Weekly Interest Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week shall be equal to 110% of the SIFMA Swap Index on the day such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period until the Remarketing Agent determines the Weekly Interest Rate as required hereunder.

Redemption

Optional Redemption. While any Weekly Interest Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of Hoag Hospital given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption), in whole or in part (in such amounts and with respect to such Sinking Fund Installments as may be specified by Hoag Hospital), on any date at a redemption price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary optional redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon request of Hoag Hospital), in whole or in part at any time (in such amounts and with respect to such Sinking Fund Installments as may be specified by Hoag Hospital), in the event of any damage to or destruction or condemnation of any part of Hoag Hospital's or NHC's facilities (or the facilities of any future additional Members) to the extent that the proceeds of any hazard insurance or condemnation award relating thereto are not applied to the repair, reconstruction or restoration of such facilities and Hoag Hospital elects to use such unapplied proceeds for an optional redemption. If called for redemption prior to maturity as described in this paragraph, the Bonds may be redeemed at a redemption price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

Optional Redemption in the Event of a Change in Law. The Bonds are subject to optional redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon request of Hoag Hospital), in whole at any time at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, if, as a result of any change in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Member that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the date of issuance of the Bonds.

Mandatory Redemption. The Series 2008D Bonds are also subject to redemption prior to their stated maturity in part, by lot, from Sinking Fund Installments, on any December 1, on or after December 1, 2012, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, as follows (subject to adjustment as may be directed by Hoag Hospital following an optional redemption):

Redemption Date (December 1)	Sinking Fund Installment	Redemption Date (December 1)	Sinking Fund Installment
2012	\$1,125,000	2027	\$2,650,000
2013	2,375,000	2028	2,750,000
2014	2,450,000	2029	2,850,000
2015	2,575,000	2030	2,975,000
2016	1,575,000	2031	3,125,000
2017	1,650,000	2032	3,275,000
2018	1,700,000	2033	3,400,000
2019	1,800,000	2034	3,550,000
2020	1,900,000	2035	3,700,000
2021	2,050,000	2036	3,875,000
2022	2,075,000	2037	4,050,000
2023	2,175,000	2038	4,225,000
2024	2,275,000	2039	4,400,000
2025	2,375,000	2040†	4,600,000
2026	2,475,000		

† Final Maturity

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Mandatory Redemption. The Series 2008E Bonds are also subject to redemption prior to their stated maturity in part, by lot, from Sinking Fund Installments, on any December 1, on or after December 1, 2012, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, as follows (subject to adjustment as may be directed by Hoag Hospital following an optional redemption):

Redemption Date (December 1)	Sinking Fund Installment	Redemption Date (December 1)	Sinking Fund Installment
2012	\$1,150,000	2027	\$2,600,000
2013	2,375,000	2028	2,700,000
2014	2,450,000	2029	2,850,000
2015	2,575,000	2030	2,975,000
2016	1,575,000	2031	3,125,000
2017	1,600,000	2032	3,250,000
2018	1,775,000	2033	3,425,000
2019	1,800,000	2034	3,525,000
2020	1,900,000	2035	3,750,000
2021	1,975,000	2036	3,875,000
2022	2,150,000	2037	4,050,000
2023	2,150,000	2038	4,225,000
2024	2,275,000	2039	4,450,000
2025	2,375,000	2040†	4,600,000
2026	2,475,000		

† Final Maturity

Mandatory Redemption. The Series 2008F Bonds are also subject to redemption prior to their stated maturity in part, by lot, from Sinking Fund Installments, on any December 1, on or after December 1, 2012, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, as follows (subject to adjustment as may be directed by Hoag Hospital following an optional redemption):

Redemption Date (December 1)	Sinking Fund Installment	Redemption Date (December 1)	Sinking Fund Installment
2012	\$2,835,000	2027	\$2,890,000
2013	2,640,000	2028	2,985,000
2014	2,730,000	2029	3,155,000
2015	2,845,000	2030	3,290,000
2016	1,745,000	2031	3,455,000
2017	1,780,000	2032	3,605,000
2018	1,910,000	2033	3,765,000
2019	2,005,000	2034	3,920,000
2020	2,120,000	2035	4,100,000
2021	2,200,000	2036	4,295,000
2022	2,305,000	2037	4,480,000
2023	2,360,000	2038	4,675,000
2024	2,515,000	2039	4,875,000
2025	2,650,000	2040†	5,105,000
2026	2,765,000		

† Final Maturity

Notice of Redemption of the Bonds. Notice of redemption will be mailed by the Bond Trustee not less than 10 nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee, to the Bank, the Remarketing Agent, the Master Trustee and to one or more securities information services specified by Hoag Hospital.

Failure by the Bond Trustee to give notice to the Bank, the Remarketing Agent, the Master Trustee or any one or more of the securities information services or securities depositories or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Bond Trustee to mail notice of redemption as described to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

In the event any of the Bonds are called for redemption, the Bond Trustee will give notice of the redemption of such Bonds, which notice must (i) specify the Bonds to be redeemed, the Series designation, the redemption date, the redemption price, and the place or places of redemption, the maturity, CUSIP numbers, if any, and, if less than all of the Bonds are to be redeemed, the portions of the principal amount thereof to be redeemed, and (ii) state that, on said date, there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Such notice is required to set forth the fact that redemption is conditional upon receipt by the Bond Trustee of sufficient funds to pay the redemption price.

Any redemption notice may be rescinded by written notice from Hoag Hospital to the Bond Trustee at least two Business Days prior to the date specified for such redemption. The Bond Trustee shall give notice of such rescission in the same manner as for the notice of redemption.

As of the date of redemption, interest on the Bonds so called for redemption shall cease to accrue from and after the date fixed for redemption thereof, if, on the date fixed for redemption, sufficient moneys for the redemption of such Bonds, together with interest to the date fixed for redemption, are held by the Bond Trustee for such purposes. Said Bonds shall cease to be entitled to any benefit or security under the Bond Indenture after the date of redemption, and Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

Redemption of Portion of Bonds. The Bonds will be redeemed only in authorized denominations. If less than all of the Bonds of a Series are called for redemption, the Bond Trustee will select the Bonds of such Series or portions thereof by lot, and the remaining Bonds of a Series that have not been so called for redemption will be in authorized denominations.

SO LONG AS THE ONLY OWNER OF THE BONDS IS DTC, SUCH SELECTION WILL, HOWEVER, BE MADE BY DTC. If a portion of a Bond is called for redemption, a new Bond in the principal amount equal to the unredeemed portion thereof will be issued to the Holder upon surrender thereof.

Mandatory Purchase in Lieu of Redemption. Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to Hoag Hospital the option to purchase such Bond at any time such Bond is subject to optional redemption as described under "Optional Redemption" above. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond. In the event Hoag Hospital determines to exercise such option, Hoag Hospital shall deliver a Favorable Opinion of Bond Counsel to the Bond Trustee and to the City, and shall direct the Bond Trustee to

provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture relating to notice of redemption and to select Bonds of the applicable Series subject to mandatory purchase in the same manner as such Bonds are called for redemption pursuant to the Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this paragraph, Hoag Hospital shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds (which, while the Bonds of any Series are secured by a Credit Facility, shall be Available Moneys), and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this paragraph shall operate to extinguish the indebtedness of the City evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Converting to other Interest Rate Periods

Hoag Hospital, by written direction to the Bond Trustee, the Tender Agent, the Remarketing Agent and the Credit Facility Provider, may elect that the Bonds of a Series shall bear interest at an Auction Rate, Bond Interest Term Rates or a Serial Bond Interest Rate. Such direction of Hoag Hospital shall specify (i) the proposed effective date of the new Interest Rate Period, which date shall be a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such direction and an Interest Payment Date for the Bonds of the Series to be converted. The direction of Hoag Hospital shall be accompanied by a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the effective date of the adjustment to the new Interest Rate Period and a form of the notice to be mailed by the Trustee to the Holders of the Bonds.

In connection with any Conversion of the Interest Rate Period of Bonds of a Series, Hoag Hospital shall have the right to deliver to the Bond Trustee, the Credit Facility Provider, the Remarketing Agent and the City on or prior to 10:00 a.m., New York City time, on the second Business Day preceding the effective date of any such Conversion a notice to the effect that Hoag Hospital elects to rescind its election to effect such Conversion. If Hoag Hospital rescinds its election to effect such Conversion, then the Interest Rate Period shall not be converted, such Bonds shall not be subject to mandatory tender (unless the notice from the Bond Trustee to the Holders of the Bonds has already been mailed, in which case, such Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the date of the Conversion), and such Bonds shall continue to bear interest at the Weekly Interest Rate as in effect immediately prior to such proposed Conversion.

No Conversion from one Interest Rate Period to another shall take effect under the Bond Indenture unless each of the following conditions, to the extent applicable, among others, shall have been satisfied.

(i) The Bond Trustee and the City shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(ii) In the case of any Conversion with respect to which there shall be no Liquidity Facility in effect to provide funds for the purchase of Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date shall not be less than the amount required to purchase all of the Bonds at the Purchase Price (unless Hoag Hospital, in its sole discretion, elects to transfer to the Tender Agent the amount of such deficiency on or before the Conversion Date, which, while a Credit Facility is in effect, shall be Available Moneys).

If any condition to the Conversion shall not have been satisfied, then the Interest Rate Period shall not be converted and such Bonds shall continue to bear interest at the Weekly Interest Rate as in effect immediately prior to such proposed Conversion and the Bonds of such Series shall continue to be

subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion.

Mandatory Tender

Bonds (other than those owned by, for the account of or on behalf of Hoag Hospital, and other Members of the Obligated Group or the City, or Liquidity Facility Bonds) shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period, the first day of a new Period within a Serial Bond Interest Rate Period (or on the first day which would have been such a day had noticed conversion of an Interest Rate Period not failed to occur) at a Purchase Price equal to the principal amount of such Bonds plus accrued interest to the date of purchase, payable in immediately available funds (which while a Credit Facility is in effect, shall be Available Moneys).

Expiration, Termination or Substitution of Credit Facility or Liquidity Facility. If at any time the Bonds shall cease to be subject to purchase pursuant to the Liquidity Facility or the Credit Facility then in effect as a result of (i) the termination, replacement or expiration of the term, as extended, of that Liquidity Facility or Credit Facility, including but not limited to termination at the option of Hoag Hospital in accordance with the terms of such Liquidity Facility or Credit Facility, or (ii) the occurrence of a Mandatory Credit/Liquidity Tender, then the Bonds shall be purchased or deemed purchased at a purchase price equal to the principal amount of such Bonds plus accrued interest to the date of purchase. Any purchase of the Bonds pursuant to mandatory tender under the circumstances described immediately above shall occur: (1) on the fifth Business Day preceding any such expiration or termination of such Liquidity Facility or Credit Facility without replacement by an Alternate Liquidity Facility, a Credit Facility, an Alternate Credit Facility or a Liquidity Facility or upon any termination of a Liquidity Facility as a result of a Mandatory Credit/Liquidity Tender, and (2) on the proposed effective date of the replacement of a Liquidity Facility or a Credit Facility, in any case where an Alternate Liquidity Facility or an Alternate Credit Facility is to be delivered to the Tender Agent pursuant to the Bond Indenture. **The Bonds will not be subject to mandatory tender upon the replacement of a Liquidity Facility or a Credit Facility in the case where the Liquidity Facility Provider or the Credit Facility Provider is failing to honor conforming draws.** Upon the expiration, termination, substitution or addition of a Credit Facility and/or Liquidity Facility with respect to any Series of Bonds, there will be a mandatory tender in accordance with the terms of the Indenture.

Optional Tender

During any Weekly Interest Rate Period, any Bonds (other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the City or any Member of the Obligated Group) shall be purchased from a Holder at the option of the Holder on any Business Day at a purchase price equal to the principal amount thereof, plus accrued interest, if any, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent of an irrevocable written notice which states the name and Series designation of the Bond, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the 7th day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Inadequate Funds for Tenders

If sufficient funds are not available for the purchase of all Bonds of any Series tendered or deemed tendered and required to be purchased on any Purchase Date, the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default and all tendered Bonds shall be returned to their respective Holders and shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with the Indenture. Thereafter, the Bond Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Credit Facility Provider.

Certain Considerations Relating to the Remarketing of the Bonds

The Remarketing Agent is Paid by Hoag Hospital. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the Holders thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by Hoag Hospital and is paid for its services by Hoag Hospital. As a result, the interest of the Remarketing Agent may differ from those of existing Holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as Remarketing Agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May Not Always be Remarketed. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the effective date at a price (without regard to accrued interest) equal to the principal amount thereof. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on any date at par. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Bonds at the remarketing price.

The Ability to Sell the Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Indenture and the Remarketing Agreement. Hoag Hospital has covenanted to exercise its best efforts to appoint a remarketing agent upon resignation of the Remarketing Agent.

Book-Entry-Only System

The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry-only system maintained by DTC (the "Book-Entry-Only System"). One fully-registered bond certificate will be issued for the entire aggregate principal amount of each Series of Bonds and will be deposited with DTC. See APPENDIX F – "BOOK-ENTRY SYSTEM."

Transfer and Payment

In the event the book-entry system is discontinued, the following provisions will apply. The Bonds may be transferred by the registered owner thereof or such owner's attorney duly authorized in writing, upon presentation thereof accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Bond Trustee, duly executed by the registered owner or by such owner's duly authorized attorney. Any Bond may be exchanged at the designated corporate trust office of the Bond Trustee for a like aggregate principal amount of Bonds of the same Series and maturity and of other authorized denominations. The Bond Trustee and the City may charge a fee covering their actual reasonable expenses and will charge for any taxes, fees or other governmental charges required to be paid in connection with any exchange or registration of transfer of any Bond, except in the case of issuance of a Bond for the unredeemed portion of a Bond surrendered for redemption. For a description of the registration of transfer procedures while The Bonds are in the book-entry-only system, see "THE BONDS – Book-Entry-Only System" herein.

SECURITY FOR THE BONDS

General

In the Loan Agreement, Hoag Hospital agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, will be in amounts sufficient for the payment in full of all amounts payable with respect to each Series of Bonds, including the total interest payable on each Series of Bonds to the date of maturity of such Bonds or earlier redemption, the principal amount of such Bonds, any redemption premiums, and certain other fees and expenses (the "Additional Payments"), less any amounts available for such payment as provided in the Bond Indenture. Each Series of Bonds is also payable from payments made on Obligation No. 5, proceeds of such Series of Bonds (to the extent available), investment earnings on proceeds of the Bonds, certain amounts on deposit under the Bond Indenture and proceeds of insurance or condemnation awards, each in the manner and to the extent set forth in the Bond Indenture. A portion of the proceeds of the Bonds will be used to redeem the 2007 Refunded Bonds on the Date of Issuance of the Bonds (as defined and discussed under the caption "PLAN OF REFUNDING" below). Such amounts will not be available for payment of the Bonds.

As security for its obligation to make the Loan Repayments, Hoag Hospital, as Credit Group Representative, concurrently with the issuance of the Bonds will issue Obligation No. 5 to the Bond Trustee pursuant to which the Obligated Group and any future Members of the Obligated Group agree to make payments to the Bond Trustee in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. As of the date of issuance and delivery of the Bonds, Hoag Hospital and NHC are the only Members of the Obligated Group under the Master Indenture. Each Member is jointly and severally liable for payment of the Obligations issued under the Master Indenture, including Obligation No. 5. See "SECURITY FOR THE BONDS – The Master Indenture" below.

There is no debt service reserve fund for the Bonds.

The Master Indenture

The Master Indenture includes covenants that require Members of the Obligated Group to restrict certain actions, including incurring additional Indebtedness. In determining whether Hoag Hospital, NHC and future Members of the Obligated Group have satisfied such covenants and tests, the Master Indenture requires the Obligated Group to combine all Members' income and assets at any point of calculation, including any other future Members of the Obligated Group. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Membership in the Obligated Group."

Unsecured Debt. Master Indenture Obligations issued under the Master Indenture are not secured by a lien on real or personal property of any Member, including Hoag Hospital and NHC. Accordingly, holders of Master Indenture Obligations would be unsecured creditors in any bankruptcy or insolvency proceeding involving Hoag Hospital, NHC or any other Member of the Obligated Group.

Covenant Against Liens. Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not, and each Controlling Member covenants that it will not permit any of its Designated Affiliates to, create, assume or suffer to be created or permit the existence of any Lien upon any of its Property, except for Permitted Liens.

Permitted Liens include Liens on Property of the Obligated Group, including Liens which may be granted to secure additional Master Indenture Obligations and other Indebtedness, provided that the Value of the Property that is encumbered is not more than 30% of the Value of all Property. See the definition of "Permitted Liens" in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms" and "– MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – Against Encumbrances."

Grant of Security Interest in Gross Receivables May Be Released. Pursuant to Supplement No. 1, Hoag Hospital and NHC, as the Members of the Obligated Group, each agreed to pledge, assign, convey, transfer and grant to the Master Trustee, for the benefit of the Holders of Obligations, but only so long as Obligation No. 1 (securing the Series 2007 Bonds) remains Outstanding, subject in all cases to Permitted Liens, a security interest in, general lien upon, and the right of setoff against all right, title and interest in the Gross Receivables (as defined in Supplement No. 1), whether now owned or hereafter acquired. The bond insurer for the Series 2007 Bonds may waive, modify or release the pledge of Gross Receivables.

The security interest in Gross Receivables described above has been perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of California ("UCC") by filing and maintenance of UCC financing statements. The grant of a security interest in Gross Receivables may be subordinated to the interest and claims of others in several instances. See "SECURITY FOR THE BONDS – Security and Enforceability."

Additional Indebtedness. Indebtedness in addition to the Bonds, the Additional 2008 Bonds and the City's Series 2007D and 2007E Bonds remaining outstanding may be incurred by Hoag Hospital, NHC or any other Member and secured on a parity with Master Indenture Obligations issued under the Master Indenture for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Each Master Indenture Obligation will be the full and unlimited obligation of the issuing Member and each Member will jointly and severally guarantee the payment of any and all amounts payable under the Master Indenture Obligation. Subject to the conditions therein, the Master Indenture also permits Hoag Hospital, NHC and any other Member to incur secured and unsecured indebtedness in addition to Master Indenture Obligations and to enter into Guarantees. See APPENDIX C –

“SUMMARY OF PRINCIPAL DOCUMENTS” and “– MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group.”

The Interest Rate Swap Agreements (defined below) will continue to be secured by Obligation No. 3, as amended, and Hoag Hospital’s reimbursement obligations to the Bank with respect to the Letter of Credit will be secured by Obligation No. 6, each issued under the Master Indenture. In addition, Hoag Hospital’s obligations related to the \$172,950,000 of the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2007D and 2007E and related obligations to the bond insurer securing certain payments on the 2007D and 2007E bonds continue to be secured by Obligation No. 1 issued under the Master Indenture. See also APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Capitalization.”

Additional Covenants. Hoag Hospital has agreed in Supplemental Master Indenture No. 1 (“Supplement No. 1”) to comply with certain financial covenants in addition to the financial covenants contained in the Master Indenture described above. The additional financial covenants in Supplement No. 1 are for the sole benefit of the bond insurer securing the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2007A-E, so long as the bond insurer is not in default of its payment obligations under the 2007 bond insurance policy, and may be enforced, waived or modified at any time at that bond insurer’s sole discretion; such modification or waiver can be done without the approval of the Master Trustee or any other Holder of Master Indenture Obligations. See APPENDIX D – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE.”

Release of Obligation No. 5. Under the circumstances described in the Bond Indenture, the Bond Trustee is required to exchange Obligation No. 5 for a note or similar obligation (the “Replacement Obligation”) of a credit group that could be financially and operationally different from the Obligated Group, and the new credit group could have substantial debt outstanding that would rank on a parity with the Replacement Obligation. Such exchange could adversely affect the market price for and marketability of the Bonds. For a summary of the conditions that must be satisfied before a Replacement Obligation could be exchanged for Obligation No. 5, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – BOND INDENTURE – Replacement of Obligation No. 5.”

Designated Affiliates. Under the Master Indenture, Hoag Hospital, as the Credit Group Representative, may by resolution designate “Designated Affiliates” from time to time, and may rescind any such designation at any time. Currently no entities have been designated by Hoag Hospital, as Designated Affiliates. Management of Hoag Hospital has no intention of designating any Designated Affiliates in the immediately foreseeable future.

The Master Indenture provides that Hoag Hospital, as Credit Group Representative, must, by resolution, designate a Controlling Member (who must be a Member of the Obligated Group) for each Designated Affiliate. Each Controlling Member is required under the Master Indenture to cause each of its Designated Affiliates to pay or otherwise transfer to the Credit Group Representative or other Member amounts necessary to enable the Members to pay when due the principal of, premium, if any, and interest on any Outstanding Master Indenture Obligations. **Designated Affiliates are not obligated under Obligation No. 5 or any other Master Indenture Obligations, nor may the Bond Trustee or any Holder seek to enforce compliance with the Master Indenture against any Designated Affiliate. Compliance with the Master Indenture by a Designated Affiliate may only be enforced by its Controlling Member or the Credit Group Representative and the ability of such Controlling Member or the Credit Group Representative to enforce compliance with the Master Indenture will vary and the available remedies may be limited depending on the nature of the relationship between the Designated Affiliate and the Controlling Member.**

Under the Master Indenture the Controlling Member for a Designated Affiliate must either: (i) maintain, directly or indirectly, control of the Designated Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent required to cause the Designated Affiliate to comply with the Master Indenture, or (ii) have in effect such contracts or other agreements, which in the judgment of the Governing Bodies of the Credit Group Representative and the Controlling Member, are sufficient to allow such Controlling Member to enforce compliance by the Designated Affiliate with the terms of the Master Indenture.

If the Controlling Member maintains organizational control of the Designated Affiliate, compliance with the Master Indenture generally may be enforced by the Controlling Member exercising its reserved powers to direct actions of the Designated Affiliate, including replacing the members of the governing body of such Designated Affiliate, if necessary. **The level of organizational control and the procedures for exercising such control may vary among Designated Affiliates and there is no assurance that a Controlling Member would be able to enforce compliance by its Designated Affiliate in a timely manner.**

With respect to those Designated Affiliates who are not subject to organizational control but have only a contractual relationship with a Controlling Member, the ability of the Controlling Member to enforce compliance with the Master Indenture will be based solely on the applicable contract. Should any such non-controlled Designated Affiliate refuse to comply with the covenants and requirements of the Master Indenture, the Controlling Member's remedies would be limited to litigation to specifically enforce the provisions of the applicable written contract. In particular, the execution of a written contract may not give the Obligated Group the power or authority to replace the governing body or management of a Designated Affiliate. Moreover, the Designated Affiliate may have certain defenses to such litigation, and there is no assurance that the Controlling Member would prevail in such an action. See "SECURITY FOR THE BONDS – Security and Enforceability – Enforceability of the Master Indenture, the Loan Agreement and Obligation No. 5."

The Master Indenture provides that after an entity is designated as a Designated Affiliate, the Credit Group Representative may at any time declare that such entity is no longer a Designated Affiliate. Accordingly, there can be no assurance that an entity designated as a Designated Affiliate will continue to be a Designated Affiliate for the term of Obligation No. 5.

Security and Enforceability

Enforceability of the Master Indenture, the Loan Agreement and Obligation No. 5. The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of an Obligated Group Member to make debt service payments on behalf of another Obligated Group Member is unsettled, and the ability to enforce the Master Indenture and the Master Indenture Obligations against NHC or any other Obligated Group Member that would be rendered insolvent thereby could be subject to challenge. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent conveyance laws if the obligation is incurred without "fair" and/or "fairly equivalent" consideration to the obligor and if the incurrence of the obligation thereby renders the Obligated Group Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are not clear and may vary under the Federal Bankruptcy Code, state fraudulent conveyance statutes and applicable cases.

The joint and several obligation described herein of each Member of the Obligated Group to pay debt service on Obligation No. 5 may not be enforceable under any of the following circumstances:

- (i) to the extent payments on Obligation No. 5 are requested to be made from assets of a Member (such as NHC or any future Member) other than Hoag Hospital which are donor-

restricted or which are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;

(ii) if the purpose of the debt created and evidenced by Obligation No. 5 is not consistent with the charitable purposes of the Member (other than Hoag Hospital) from which such payment is requested or required, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under sections 501(a) and 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) and is not a “private foundation” as defined in section 509(a) of the Code;

(iii) to the extent payments on Obligation No. 5 would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member (other than Hoag Hospital); or

(iv) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on Obligation No. 5 also apply to their obligations on all Master Indenture Obligations. If the obligation of a particular Member of the Obligated Group to make payment on a Master Indenture Obligation is not enforceable and payment is not made on such Master Indenture Obligation when due in full, then Events of Default will arise under the Master Indenture.

In addition, common law authority and authority under state statutes exists for the ability of courts in such states to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the attorney general of such states or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against Hoag Hospital under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against Obligated Group Members under Obligation No. 5 may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors’ rights. In addition, the Bond Trustee’s and the Master Trustee’s ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

The various legal opinions delivered concurrently with the issuance of the Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights, including fraudulent conveyance considerations, or the enforceability of certain remedies or document provisions.

For a further description of the provisions of the Bond Indenture, the Loan Agreement and the Master Indenture, including covenants that secure the Bonds, events of default, acceleration and remedies under the Master Indenture, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS.”

Security for Obligations. All Master Indenture Obligations issued and Outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise in the Master Indenture. Any one or more series of Master Indenture Obligations

issued under the Master Indenture may, so long as any Liens created in connection therewith constitute Permitted Liens, be secured by security (including, without limitation, letters or lines of credit, insurance, Liens on Property of the Members or Designated Affiliates, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Master Indenture Obligations or series of Master Indenture Obligations). Consequently, the Related Supplement pursuant to which any one or more series of Master Indenture Obligations is issued may provide for such supplements or amendments to the provisions of the Master Indenture, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Master Indenture Obligations entitled thereto. See “SECURITY FOR THE BONDS – Master Indenture – Additional Covenants” above for a discussion of certain covenants for the benefit of the 2007 bond insurer.

Bankruptcy. In the event of bankruptcy of an Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If an Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90 day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such Obligated Group Member’s liquidation. Security interests and other liens granted to a Bond Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Obligated Group Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property, as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Obligated Group Member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Bond Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

Such Obligated Group Member could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In the event of bankruptcy of any Member, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement and certain other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income of the Bondholders for federal income tax purposes.

Initial Letter of Credit

As described herein, the Bank will issue and deliver the Letter of Credit to the Bond Trustee. Under the Letter of Credit, during the term thereof, funds will be available to be drawn on by the Bond Trustee in an amount sufficient to pay the principal of and interest on each Series of Bonds when due, at maturity, upon redemption or upon acceleration, and the purchase price of any tendered Bonds that are

not remarketed. See “THE BANK, THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT” and “ALTERNATE LETTER OF CREDIT” herein.

Other

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM PAYMENTS REQUIRED TO BE MADE BY HOAG HOSPITAL PURSUANT TO THE LOAN AGREEMENT AND OBLIGATION NO. 5 ISSUED PURSUANT TO THE MASTER INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE CITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 5 AND THE BOND INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

THE BANK, THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

Bank of America, N.A.

The following information relating to Bank of America, N.A. (the “Bank”) has been furnished by the Bank for inclusion herein. Such information is not guaranteed as to accuracy or completeness by Hoag Hospital or the Underwriter and is not to be construed as a representation by Hoag Hospital or the Underwriter. Neither Hoag Hospital nor the Underwriter has verified this information. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or incorporated by reference under this section “Bank of America, N.A.” is correct as of any time subsequent to the date as of which such information is provided.

Bank of America, N.A. (the “Bank”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Parent Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of March 31, 2008, the Bank had consolidated assets of \$1,355 billion, consolidated deposits of \$793 billion and stockholder’s equity of \$111 billion based on regulatory accounting principles.

The Parent Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Parent Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with any subsequent documents it filed with the Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Additional information regarding the foregoing is available from the filings made by the Parent Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports,

proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Parent Corporation and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit is expected to be issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term debt as "Aaa" and short-term debt as "P-1." The outlook is stable. Standard & Poor's rates the Bank's long-term debt as "AA+" and its short-term debt as "A-1+." The outlook is stable. Fitch Ratings, Inc. ("Fitch") rates long-term debt of the Bank as "AA" and short-term debt as "F1+." The long-term rating is currently on Rating Watch Negative. Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Commission pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each Person to whom this document is delivered, on the written request of such Person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT DURING ITS TERM. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE PARENT CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of Parent Corporation or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

The Letter of Credit

The Bank is issuing for the account of Hoag Hospital and for the benefit of the Bond Trustee, a direct-pay letter of credit securing the Bonds (the "Letter of Credit").

The Letter of Credit is an irrevocable obligation of the Bank to pay to the Bond Trustee, upon drawings made by the Bond Trustee in strict compliance with the terms and conditions of the Letter of Credit, up to (a) an amount equal to the outstanding principal amount of the Bonds to enable the Bond Trustee to pay the principal amount of the Bonds when due at maturity or upon acceleration, redemption, purchase pursuant to a mandatory or option tender, upon a failed remarketing or otherwise, plus (b) an

amount equal to 35 days' interest on the Bonds at the maximum rate of 12% per annum to enable the Trustee to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered pursuant to the Bond Indenture and not remarketed corresponding to the accrued interest on such Bonds. The original stated amount of the Letter of Credit of \$252,876,712.33, of which \$250,000,000 is equal to the aggregate principal amount of the Bonds, the "principal component" and \$2,876,712.33 is in respect of interest on the Bonds, the "interest component."

Under the Bond Indenture, the Bond Trustee is directed to draw upon the Letter of Credit in the following circumstances:

- (a) to make timely payment of the interest on the Bonds;
- (b) to make timely payment of the principal of the Bonds at maturity, upon optional or mandatory call for redemption or upon acceleration of the Bonds; and
- (c) to make timely payment of the purchase price of Bonds required to be purchased upon an optional or mandatory tender for purchase pursuant to the provisions the Bond Indenture, to the extent remarketing proceeds or other funds are not available to make such payment under the Bond Indenture.

Each drawing honored by the Bank under the Letter of Credit shall immediately reduce the principal component and/or the interest component (as the case may be) of the amount available under the Letter of Credit by the amount of such drawing, and the aggregate amount available under the Letter of Credit shall be correspondingly reduced. The amount available under the Letter of Credit, as so reduced, shall be reinstated only as follows:

- (a) with respect to a drawing under the Letter of Credit to pay periodic interest, the interest component shall be reinstated automatically and immediately upon receipt by the Bank of a certificate of periodic interest demand with reinstatement in substantially the form prescribed by the Letter of Credit; and
- (b) with respect to a drawing under the Letter of Credit to pay the Purchase Price of any Bonds, the principal component and the interest component shall be reinstated when and to the extent that the Bank has received the certificate from the Bond Trustee in the form prescribed by the Letter of Credit that the Bank has received remarketing or other reimbursement proceeds.

The Letter of Credit shall not apply to the payment of principal and interest payable with respect to any Bonds which are held in the name of the Corporation or any affiliate or held by the Bond Trustee for the account of the Corporation or any affiliate or to the payment of principal of and interest on any Bonds held in the name of the Bank.

The Letter of Credit will expire upon the first to occur of the following: (a) the Stated Expiration Date (as defined in the Letter of Credit and used herein), (b) the date on which the Bank receives a final drawing certificate in the form prescribed by the Letter of Credit that the accompanying sight draft constitutes the final drawing under the Letter of Credit and canceling such Letter of Credit; (c) 2 Business Days following the first day on which the interest rate with respect to the Bonds is converted to any Interest Rate Period other than a Weekly Interest Rate Period, pursuant to the Bond Indenture; or (d) 30 days after receipt by the Bond Trustee of a certificate from the Bank of notice of an event of default under the Reimbursement Agreement which notice directs the Bond Trustee to accelerate the Bonds.

The Reimbursement Agreement

The Letter of Credit is being issued pursuant to a Letter of Credit Agreement, dated as of May 22, 2008 (the "Reimbursement Agreement"), among Hoag Hospital, the Bank, as issuer of the Letter of Credit, the Lenders and the Bank, as Administrative Agent.

Under the Reimbursement Agreement, Hoag Hospital is obligated, among other things, to reimburse the Bank, with interest, for each drawing under the Letter of Credit. The Reimbursement Agreement establishes various representations, warranties and covenants of Hoag Hospital and establishes various events of default. The terms of the Reimbursement Agreement and certain related documents may be modified, amended or supplemented by the Bank, as agent for itself and the Lenders, and Hoag Hospital from time to time without giving notice to or obtaining the consent of the Bondholders or the Bond Trustee. Any amendment, modification or supplement to the Reimbursement Agreement may contain amendments or modifications to the covenants of the Corporation or additional covenants of the Corporation and these amended or modified covenants may be more or less restrictive than those in effect at the date of issuance of the Bonds. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Reimbursement Agreement.”

Events of Default and Remedies

The Reimbursement Agreement provides for various events of default and remedies available to the Bank, as agent for itself and the Lenders, and as Administrative Agent in the case of an event of default, thereunder. Upon an event of default under either Reimbursement Agreement, the Administrative Agent (at the direction of the requisite Lenders) may instruct the Bank to cause acceleration or mandatory tender of the applicable Series of the Bonds but the Letter of Credit must remain in effect for a period of time sufficient to allow the Bond Trustee to make a drawing thereunder for the principal and accrued interest and Purchase Price of Bonds of the respective Series. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Reimbursement Agreement.” Hoag Hospital’s obligations under the Reimbursement Agreement will be secured by a parity Obligation No. 6 expected to be issued under the Master Indenture.

ALTERNATE LETTER OF CREDIT

At any time a letter of credit, including the initial Letter of Credit, is in effect, Hoag Hospital may, at its option, provide for the delivery to the Bond Trustee of an extension of such Letter of Credit or an alternate letter of credit (“Alternate Letter of Credit”) upon compliance with the conditions contained in the Bond Indenture. The Bonds will be subject to mandatory tender for purchase upon the effective date of an Alternate Letter of Credit. Upon compliance with the provisions of the Bond Indenture, Hoag Hospital may also, at its option, elect to remarket the Bonds, or any Series thereof, without a Credit Facility or Liquidity Facility following a mandatory tender. See “THE BONDS—Mandatory Tender” herein.

PLAN OF REFUNDING

General

The issuance of the Bonds and the loan of the proceeds thereof is for the benefit of Hoag Hospital to refund the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian), 2007 Series A, 2007B and 2007C (the “2007 Refunded Bonds”). In addition to the Bonds, the concurrent issuance of the Additional 2008 Bonds (together with the Bonds, the “2008 Bonds”) and the loan of the proceeds thereof is also for the benefit of Hoag Hospital to (i) refund the 2005 Refunded Bonds identified below and (ii) pay costs of issuing the 2008 Bonds.

Refunding Certain Existing Bonds

Hoag Hospital has determined to refund certain outstanding bonds issued for its benefit by the City to limit Hoag Hospital’s exposure to certain financial markets for bonds issued as auction rate securities. See “BONDHOLDERS’ RISKS – Turmoil in U.S. Bond Markets.”

Refunding of Certain 2007 Bonds. The net proceeds of the Bonds (the “Refunding Proceeds”) will be applied to redeem all of the 2007 Refunded Bonds on May 22, 2008 at par.

Additional 2008 Bonds; Refunding of Series 2005 Bonds. Concurrently with the issuance of the Bonds, the City plans to issue three additional series of bonds for the benefit of Hoag Hospital’s refunding plan in a total principal amount not exceeding \$202,080,000 (the “Additional 2008 Bonds”) to (a) refund the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian) Series 2005A and Series 2005B (the “2005 A/B Bonds”) and (b) repay a draw on a line of credit used by Hoag Hospital in April 2008 to redeem the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian) Series 2005C Bonds (together with the 2005 A/B Bonds, the “2005 Bonds”). The Additional 2008 Bonds are expected to be issued without a Credit Facility or Liquidity Facility initially and in a Weekly Interest Rate Period for the Series 2008C Bonds and in a Serial Bond Interest Rate Period of approximately 1 year for the Series 2008A and Series 2008B Bonds.

Hoag Hospital’s plan of refunding is intended to reduce Hoag Hospital’s exposure to certain markets for bonds bearing interest at auction rates due to the volatility, uncertainty and disruption in such markets. See “BONDHOLDERS’ RISKS – Turmoil in U.S. Bond Markets.” The total amount of Bonds and Additional 2008 Bonds expected to be issued will not exceed \$452,080,000. Following issuance of the Bonds and the Additional 2008 Bonds and redemption of the 2005 Bonds and the 2007 Refunded Bonds, the only outstanding bonds secured under the Master Indenture will be the Bonds, the Additional 2008 Bonds and \$172,950,000 of the City’s Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2007D and 2007E.

Interest Rate Swaps

Hoag Hospital has entered into interest rate swap agreements (the “Interest Rate Swap Agreements”) relating to the 2007 Refunded Bonds. The Interest Swap Agreements will be amended to correspond to the Series 2008A, 2008B and 2008C Bonds upon the refunding of the 2007 Refunded Bonds, in the aggregate principal amount of \$250 million, to achieve a targeted mix of fixed and floating rate indebtedness. Citibank N.A., New York (the “Swap Provider”) is the counterparty to the Interest Rate Swap Agreements. The Interest Rate Swap Agreements will have a term equal to the term of the applicable Series of the Bonds, respectively, and the aggregate notional amount and amortization of the Interest Rate Swap Agreements will be equal to the aggregate principal amount and approximately equal to the amortization of each such Series of the Bonds. Under the Interest Rate Swap Agreements, Hoag Hospital will pay a fixed rate equal to 3.229% and will receive a floating rate based on an index, in each case based on a notional amount set forth in the respective Interest Rate Swap Agreement. The Interest Rate Swap Agreements are secured by Master Indenture Obligations entitled to the benefits of the Master Indenture.

Under certain circumstances, each Interest Rate Swap Agreement is subject to termination by Hoag Hospital or the Swap Provider prior to the maturity of the Series of the Bonds to which it relates and prior to the scheduled termination date thereof. In the event of an early termination of any Interest Rate Swap Agreement, there can be no assurance that (i) Hoag Hospital will receive any termination payment payable to it by the Swap Provider, (ii) Hoag Hospital will have sufficient amounts to make a termination payment payable by it to the Swap Provider, or (iii) Hoag Hospital will be able to obtain a replacement swap agreement with comparable terms. Payments due upon early termination may be substantial.

Hoag Hospital is obligated to make debt service payments on the Bonds regardless of the performance by the Swap Provider of its obligations under the Interest Rate Swap Agreements. The Swap Provider has no obligation to make any payments with respect to the principal of, premium, if any, and interest on the Bonds and is only obligated to make certain payments to Hoag Hospital pursuant to the terms of the Interest Rate Swap Agreements. The agreement by the Swap Provider to pay amounts to

Hoag Hospital under the Interest Rate Swap Agreements does not alter or affect Hoag Hospital's obligation to pay the principal of, premium, if any and interest on the Bonds. Neither the Holders of the Bonds nor any other Person other than Hoag Hospital will have any rights under the Interest Rate Swap Agreements or against the Swap Provider. There can be no assurance that the Interest Rate Swap Agreements will be effective to mitigate related floating rate risk. See "BONDHOLDERS' RISKS — Turmoil in U.S. Bond Markets." To the extent they do not match, the Obligated Group Members are exposed to "basis risk" in that the floating amount it receives from the Swap Provider will not equal the variable amount it is required to pay on the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds and the Additional 2008 Bonds will be applied approximately as set forth below:

	Series 2008 A/B/C Bonds	Series 2008 D/E/F Bonds
Sources of Funds:		
Bond Proceeds	\$202,080,000.00	\$250,000,000.00
Total Sources of Funds	<u>\$202,080,000.00</u>	<u>\$250,000,000.00</u>
Uses of Funds:		
Refunding of 2007 Refunded Bonds	-- 0 --	250,000,000.00
Refunding of 2005 Bonds	200,000,000.00	-- 0 --
Costs of Issuance ⁽¹⁾	2,080,000.00	-- 0 --
Total Uses of Funds	<u>\$202,080,000.00</u>	<u>\$250,000,000.00</u>

- ⁽¹⁾ Includes legal, printing, rating agency, accounting, Bond Trustee and Master Trustee fees, underwriting discount, initial letter of credit and Bank counsel fees with respect to the 2008 Bonds and other miscellaneous costs of issuance with respect to the 2008 Bonds; costs of issuance for all 2008 Bonds (except underwriting discount) are paid from proceeds of the Series 2008A Bonds.

CONTINUING DISCLOSURE

Since the Bonds are limited obligations of the City, payable solely from amounts received from Hoag Hospital under the Loan Agreement and from the Obligated Group pursuant to Obligation No. 5, financial or operating data concerning the City is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the City is not providing any such information. Hoag Hospital has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the City shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

Hoag Hospital has covenanted for the benefit of Holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Hoag Hospital by not later than six months following the end of Hoag Hospital's fiscal year (which currently is August 31 but may be changed by action of its Board of Directors in the near future to be September 30 commencing with the fiscal year ending September 30, 2008) (the "Annual Report"), commencing with the report for the fiscal year ending August 31, 2008 or September 30, 2008, as the case may be (due on or before a date no later than six months after close of the fiscal year) and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Hoag Hospital or its dissemination agent with each Nationally Recognized Municipal Securities Information Repository and with a

repository designated by the State of California, if any, as the state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission (the “State Repository”). As of the date of this Official Statement, there is no State Repository. The notices of material events will be filed by Hoag Hospital or its dissemination agent with the State Repository, if any, and with the Municipal Securities Rulemaking Board or each Nationally Recognized Municipal Securities Information Repository. See APPENDIX E — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made to assist the Underwriter in complying with the Rule. Hoag Hospital has never failed to comply in all material respects with any previous undertaking with regard to said Rule to provide annual reports or notices of material events.

BONDHOLDERS’ RISKS

The purchase of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders’ Risks focuses primarily on the general risks associated with hospital or health system operations; whereas APPENDIX A describes Hoag Hospital and the Obligated Group specifically. These should be read together.

General

Except as noted under “SECURITY FOR THE BONDS,” the Bonds are payable from Loan Repayments made pursuant to the Loan Agreement and funds provided under Obligation No. 5 and the Bond Indenture. No representation or assurance can be made that revenues will be realized by Hoag Hospital or the Obligated Group in amounts sufficient to make the payments under the Loan Agreement or Obligation No. 5 and thus, to pay principal of and interest on the Bonds.

Hoag Hospital is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and are subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services (“CMS”) of the U.S. Department of Health and Human Services (“DHHS”), and other federal, state and local government agencies. The future financial condition of Hoag Hospital and NHC could be adversely affected by, among other things, changes in the method and amount of payments for healthcare services by nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., a “single payor” system), future changes in the economy, demographic changes, availability of physicians, nurses, and other healthcare professionals, and malpractice claims and other litigation. These factors and others may adversely affect both payment by Hoag Hospital under the Loan Agreement and payment by the Obligated Group on Obligation No. 5 and, consequently, payment of principal of and interest on the Bonds.

Turmoil in U.S. Bond Markets

In recent months the U.S. financial markets have experienced significant turmoil, including dislocations in the hospital tax-exempt bond markets. Accompanying the downgrading of certain bond insurers and concerns about the ongoing stability of others, obligations insured by these insurers have been negatively impacted. In particular, auction rate securities (“ARS”) insured by these insurers have been dramatically impacted, with reports of many ARS auctions failing and with interest rates on ARS bonds increased significantly. In addition, interest rate swaps, which are now in relatively common use in the tax-exempt bond markets, have experienced unexpected negative trading patterns, causing many to cease to function effectively to hedge variable rate exposure.

Hoag Hospital has approximately \$553 million of ARS debt, of which \$250 million is subject to interest rate swaps intended to hedge variable rate interest exposure. While Hoag Hospital will substantially reduce its ARS exposure through transactions described herein (see “PLAN OF REFUNDING”), following the issuance of the Bonds and the Additional 2008 Bonds, Hoag Hospital will have \$172,950,000 of ARS outstanding all of which are insured by Ambac Assurance Corporation. There can be no assurance that continued turmoil in the financial and bond markets will not negatively impact other Hoag Hospital debt obligations or the refunding effort.

Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of Hoag Hospital are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial conditions and results of operations of one or more Members of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 5.

General Economic Conditions; Bad Debt and Indigent Care. Hospitals are economically influenced by the environment in which they are located. To the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local hospitals to increase free care. Economic downturns and lower funding of federal Medicare and state Medicaid and other state health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increased bad debt and higher indigent care utilization. At the same time, nonoperating revenue from investments may be reduced or eliminated. These factors may have a material adverse impact on hospitals.

Nonprofit Healthcare Environment. As a nonprofit tax-exempt organization, Hoag Hospital is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. There can be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization. As a result, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations.

Areas which have come under examination have included pricing practices, billing and collection practices, charitable methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of tax-exempt bond financed assets and others. These challenges and questions have come from a variety of sources, including the California Attorney General, the Internal Revenue Service, labor unions, Congress, state legislatures and other state attorneys general, and patients; these issues have been raised in a variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on Hoag Hospital and the Obligated Group.

Reliance on Medicare. Inpatient hospitals such as Hoag Hospital rely to a high degree on payment from the federal Medicare program. Future changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals’ payment stream from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare outlays for hospitals. The current federal budget submitted by the Bush Administration proposes further reduction in the Medicare spending growth.

Rate Pressure from Insurers and Major Purchasers. Certain hospital markets, including many communities in California, are strongly impacted by managed care and major purchasers of health

services. In those areas, managed care companies have significant influence over hospital rates, utilization and competition. Rate pressure imposed by managed care payors or other major purchasers may have a material adverse impact on hospitals, particularly if major purchasers put increasing pressure on payors to restrain rate increases. Business failures by managed care companies also could have a material adverse impact on contracted hospitals in the form of payment shortfalls or delay, and/or continuing obligations to care for managed care patients without receiving payment.

Capital Needs vs. Capital Capacity. Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may outstrip capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of recent credit market dislocations. It is uncertain how long those conditions may persist and it is possible that capital capacity may be negatively affected over the long term for reasons related to the credit markets. Hoag Hospital's expected capital expenditures are significant. See APPENDIX A – INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – FACILITIES DESIGN AND CONSTRUCTION.

Government "Fraud" Enforcement. "Fraud" in government funded health care programs is a significant concern of DHHS, CMS and many states, and is one of the federal government's prime law enforcement priorities. The federal government, and to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of "fraud" in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

Violations carry significant sanctions. The government and/or private "whistleblowers" often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal and monetary penalties, including withholding essential hospital payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital sector. Similarly, parties contracting with hospitals regarding research and clinical trials may also pursue investigations and claims that could result in negative publicity, penalties, fines or uninsured settlements.

Interest Rate Swaps and Other Hedge Risk. Any interest rate swap or other hedge agreement to which Hoag Hospital is a party, including the Interest Rate Swap Agreements, may, at any time, have a negative value to Hoag Hospital. If either a swap or other hedge counterparty or Hoag Hospital terminates such an agreement when the agreement has a negative value to Hoag Hospital, Hoag Hospital

would generally be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to Hoag Hospital's financial condition. A counterparty may generally only terminate such an agreement upon the occurrence of defined termination events such as nonpayment by Hoag Hospital, noncompliance with certain covenants by the Obligated Group Members or in the event ratings agencies withdraw or downgrade the ratings of the Obligated Group below specified levels. See "PLAN OF REFUNDING – Interest Rate Swaps" herein.

Nursing and Other Shortages. Currently, a nursing shortage exists which may have its primary impact on hospitals. Various studies have predicted that this nursing shortage will become more acute over time and grow to significant proportions. In California, state regulation of nursing staff to patient ratios may intensify the nursing shortages. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition, results of operations and future growth could be negatively affected by these shortages, resulting in material adverse impact to hospitals.

Technical and Clinical Developments. New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation and compliance audits appear to be increasing, imposing greater operational limitations, enforcement and liability risks, and significant and sometimes unanticipated costs.

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals or special use surgery and imaging centers may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competing facilities. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – POTENTIAL AFFILIATIONS AND TRANSACTIONS."

Labor Costs and Disruption. Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce are a significant component of hospital expenses and therefore, have significant impact on hospital operations and financial condition. Hospital employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – EMPLOYEES."

Pension and Benefit Funds. As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may

require significant commitments of available cash needed for other purposes. Hoag Hospital does not provide a defined benefit pension plan for its employees or former employees although it does maintain a defined contribution plan.

State Medicaid Programs. While state Medicaid and other state healthcare programs are rarely as important to hospital financial results as Medicare, they nevertheless constitute an important payor source to many hospitals. These programs often pay hospitals at levels that may be below the actual cost of the care provided. As Medicaid is partially funded by states, if the financial condition of states significantly deteriorates then a result is lower Medicaid funding levels and/or payment delays. These could have a material adverse impact on hospitals.

General Economic Conditions; Bad Debt and Indigent Care. Hospitals are economically influenced by the environment in which they are located. To the extent that the State of California or surrounding county governments are unable to provide a safety net of medical services, pressure is applied to local hospitals to increase free care. Economic downturns and lower funding of state Medicaid programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increased bad debt and higher indigent care utilization. These factors may have a material adverse impact on hospitals.

Medical Liability Litigation and Insurance. Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities, may increase in the future. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

Facility Damage. Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, other natural causes, fire, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on hospital operations and financial conditions and resulting operations.

Nonoperating Revenues. Nonoperating revenue from investments can be significant to hospitals and is particularly important to the strategies and future plans of Hoag Hospital. Such nonoperating revenue may be reduced or eliminated as a result of general market conditions or specific investment selection and performance. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Management’s Discussion and Analysis of Financial Information.”

Nonprofit Health Care Environment

As a nonprofit tax-exempt organization, Hoag Hospital is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, Hoag Hospital conducts large-scale complex business transactions and is a major employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the tax exemption benefits conferred on such providers or the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, and instead in many cases are examinations of core business practices of the healthcare organizations. An overarching concern is that nonprofit hospitals may not confer community benefits that exceed or are

equal to the benefit received from their tax-exempt status. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures, the press, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. In recent years, three Congressional Committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health agencies. The House Committee on Energy and Commerce (the “House Committee”) launched a nationwide investigation of hospital billing and collection practices and prices charged to uninsured patients. Twenty large hospital and healthcare systems were requested by the House Committee to provide detailed historical charge and billing practice information for acute care services.

The Senate Finance Committee (the “Senate Committee”) also conducted hearings on required reforms to the nonprofit sector and released a staff discussion draft on proposals for reform in the area of tax-exempt organizations, including a proposal for a five-year review of tax-exempt status by the Internal Revenue Service requesting information from a number of nonprofit hospitals and hospital systems regarding their charitable activities, patient billing and ventures with for-profit corporations and hospitals.

The House Committee on Ways and Means has held several hearings to examine the tax-exempt sector and hospital tax-exemption and the use of tax-preferred bond financing. It is uncertain what action, if any, these Committees may take as a result of these hearings.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the Internal Revenue Service announced an enforcement effort to address abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The Internal Revenue Service (the “IRS”) announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. This examination project is ongoing and may be extended to review loans made to officers and insiders. This examination project is ongoing. Hoag Hospital has not been contacted by the IRS in connection with this enforcement effort.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into substantial settlements. A number of cases are still pending in various courts around the country with inconsistent results.

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services could take action to restrain hospital charges or charge increases. In California, the California Public Employees’ Retirement System (“CALPERS”), the nation’s third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. Hoag Hospital is not excluded from serving covered members of CALPERS.

As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals’ revenues may be negatively impacted.

Charity Care and Financial Assistance. A newly enacted California law requires California hospitals to maintain written policies about discount payment and charity care and to provide copies of

such policies to patients and the Office of Statewide Health Planning and Development. California hospitals are also required to follow specified billing and collection procedures.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While Hoag Hospital is not aware of any current challenge to the tax exemption afforded to any material real property of Hoag Hospital, there can be no assurance that these types of challenges will not occur in the future.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly more difficult operating environment for health care organizations, including Hoag Hospital and, indirectly, NHC. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on one or more Members of the Obligated Group and, in turn, their ability to make payments under the Loan Agreement and under Obligation No. 5.

Healthcare Reform Initiatives

Healthcare reform has been identified as a priority by business leaders, public advocates, political leaders and candidates for office at the federal, state and local levels. Proposals include: (1) establishing universal healthcare coverage or purchasing pools; (2) modifying how hospitals, physicians and other healthcare providers are paid; and (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems. Although California's recent universal healthcare coverage proposal failed to pass the legislature, similar reform efforts may be proposed again in the future by legislation or voter initiative. Other developments affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on the Obligated Group and their ability to make payments under the Loan Agreement and Obligation No. 5.

Patient Service Revenues

The Medicare Program. Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. To achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state and/or The Joint Commission. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services.

For each of the fiscal years ended August 31, 2005, August 31, 2006 and August 31, 2007, Medicare charges (excluding capitation) represented approximately 35.4%, 34.8% and 34.5%, respectively, of Hoag Hospital's gross patient service revenue. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue."

Hospital Inpatient Reimbursement. Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups ("DRGs"). The actual cost of care, including capital costs, may be more or less than the

DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Hospital Outpatient Reimbursement. Hospitals are also paid a pre-determined payment amount for most outpatient services based upon ambulatory payment classification (“APC”) groups. An APC group includes various services and procedures determined to be similar. There can be no assurance that the hospital APC payment, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the outpatient services.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Reimbursement of Hospital Capital Costs. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of Hoag Hospital’s facilities applicable to Medicare patient stays or will provide flexibility for Hoag Hospital to meet changing capital needs.

Medical Education Payments. Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination.

Recovery Audit Contractors Demonstration Project. In addition to periodic annual audits of Medicare payments, in 2005, CMS announced a new demonstration project using recovery audit contractors (“RACs”) as part of CMS’ further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to healthcare providers in prior years and that were not detected through existing CMS program integrity efforts. The RACs use their own software and their knowledge of Medicare to determine what areas to review. Once a RAC identifies a potentially improper claim as a result of an audit, it makes an assessment from the provider’s Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. The project is currently operating in five states (including California), with a nationwide rollout in phases which began in March 2008 and is scheduled to be completed in 2010. Such audits may have the effect of slowing future Medicare payments to providers pending an evolving appeals process with the RACs.

Medicaid Program. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid and other state health care program spending. The Bush administration proposed a \$25.7 billion cut in Medicaid spending over the next five years. This reduction in federal funding, and any reduction in state funding, will likely negatively impact provider reimbursement under the various programs.

California Medi-Cal. Medi-Cal is the California Medicaid program. The State of California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. The state is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Except in areas of the state that have been excluded from contracting, a general acute

care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice and the state may terminate without notice under certain circumstances. No assurances can be made that hospitals will be awarded Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services. As of the date hereof, Hoag Hospital does not have a Medi-Cal contract.

For each of the fiscal years ended August 31, 2005, August 31, 2006 and August 31, 2007, Hoag Hospital received approximately 4.0%, 3.9% and 3.9% respectively, of gross patient service revenues from state Medicaid programs. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue."

California Budget and Other Legislative Matters. Because of well-publicized and continuing state budget problems in California there can be no guarantee that the Medi-Cal program, in the future, will not become the target of State spending cuts adversely affecting the financial condition of the Obligated Group.

The California Legislature has enacted or is considering a number of provisions that have resulted or will result in reductions in payments to Medi-Cal providers with respect to various services. It is unknown whether the State will continue to reduce outlays for Medi-Cal programs.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"), that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the prime source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. Regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

Defined broadly, for each of the fiscal years ended August 31, 2005, August 31, 2006 and August 31, 2007, managed care payments (including capitated Medicare contracts and all capitated and non-capitated managed care) constituted approximately 57.2%, 57.2% and 57.6%, respectively, of gross patient service revenues of Hoag Hospital. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue."

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to

receive care at a particular hospital. A hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing Hoag Hospital's market share and net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs. Thus, managed care poses one of the most significant business risks (and opportunities) the hospitals face.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures

Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as Hoag Hospital. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

Regulatory Environment

"Fraud" and "False Claims." Health care "fraud and abuse" laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

Laws governing fraud and abuse may apply to a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals. See "Enforcement Activity," below. Major elements of these often highly technical laws and regulations are generally summarized below.

False Claims Act. The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

Anti-Kickback Law. The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions.

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed.

Stark Referral Law. The federal “Stark” statute prohibits the referral of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiology and other imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for Medicare-covered services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute “financial relationships” within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. The new Stark regulations effective December 4, 2007 and the CMS comments preceding them have made the Stark statute more difficult to interpret clearly; this increases the possibility that inadvertent violations may occur.

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Although Stark does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital.

In September 2007, CMS sent a “Disclosure of Financial Relationships Report” (“DFRR”) to approximately 500 specialty and acute-care hospitals that required the hospitals to report on their physician investment, ownership and compensation relationships. The DFRR included questions relating to (i) disclosure of all hospital ownership interests (both physician and non-physician), (ii) disclosure by all investing physicians concerning their ownership interests (including loans or loan guarantees), (iii) disclosure of all leases or “under arrangement” relationships with physicians or their family members and (iv) disclosure of other compensation arrangements between physicians and the hospital, including leases, medical director agreements, on-call stipends, non-monetary compensation arrangements and charitable donations. The DFRR also requires hospitals to provide supporting documentation, including verification of the fair market value of certain arrangements. It is anticipated that further reporting may be mandated for all Medicare participating hospitals thereby opening up additional arrangements to scrutiny and investigation.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

Exclusions from Medicare or Medicaid Participation. The government may exclude a hospital from Medicare/Medicaid program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments can be made. Any hospital exclusion could be a materially adverse event. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

Administrative Enforcement. Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of an administrative enforcement actions.

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers’ compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above. In addition, enforcement agencies increasingly pursue sanctions for violations of health care fraud and abuse laws through civil administrative actions.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate

settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital could have materially adverse consequences to a health system taken as a whole.

Liability Under State “Fraud” and “False Claims” Laws. Hospital providers in California also are subject to a variety of state laws, related to false claims (similar to the FCA or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions, while similar in public policy and scope to the federal laws, have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes.

Privacy Requirements. State and federal laws address the confidentiality of individuals’ health information. HIPAA, a federal law, addresses the confidentiality of individuals’ health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

EMTALA. The Emergency Medical Treatment and Active Labor Act (“EMTALA”) is a federal civil statute that requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties of up to \$50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

Licensing, Surveys, Investigations and Audits. Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses could reduce hospital utilization or revenues, or a hospital’s ability to operate all or a portion of its facilities.

Environmental Laws and Regulations. Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: air and water quality control requirements; waste management requirements; specific

regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remediating hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. See “Other Risk Factors – Natural Gas” below.

Business Relationships and Other Business Matters

Integrated Physician Groups. Hospitals often own, control or have affiliations with relatively large physician groups. For a description of Hoag Hospital’s affiliations, see APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – GENERAL – Organizational Structure.” Generally, the sponsoring hospital or health system will be the capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital investment at risk, and potentially reducing its managed care leverage and/or overall utilization. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – ORGANIZATIONAL STRUCTURE – Other Affiliated Entities Not Members of Obligated Group.”

Physician Financial Relationships. In addition to the physician integration relationships referred to above, hospitals and hospital systems frequently have various additional business and financial relationships with physicians and physician groups. These are in addition to hospital-physician contracts for individual services performed by physicians in hospitals. They potentially include: joint ventures to provide a variety of outpatient services; recruiting arrangements with individual physicians and/or physician groups; loans to physicians; medical office leases; equipment leases from or to physicians; and various forms of physician practice support or assistance. These and other financial relationships with physicians (including hospital-physician contracts for individual services) may involve financial and legal compliance risks for the hospitals and systems involved. From a compliance standpoint, these types of financial relationships may raise federal and state “anti-kickback” and federal “Stark” issues (see “Regulatory Environment”, above), tax-exemption issues (see “Tax-Exempt Status and Other Tax

Matters”, below), as well as other legal and regulatory risks, and these could have a material adverse impact on hospitals.

Indigent Care. Tax-exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Physician Medical Staff. The primary relationship between a hospital and physicians who practice in it is through the hospital’s organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. Realignment of medical staff along hospital service lines, as is expected to be pursued at Hoag Hospital, may involve such risks. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SERVICE AREA AND COMPETITION” and “– POTENTIAL AFFILIATIONS AND TRANSACTIONS.” In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

Competition Among Health Care Providers. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities including surgery centers and imaging centers, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SERVICE AREA AND COMPETITION” and “– POTENTIAL AFFILIATIONS AND TRANSACTIONS.”

Specialty hospital developments that attract away an important segment of an existing hospital’s admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital’s heart surgeons develop their own specialty heart hospital (alone or in conjunction with a specialty hospital operator or promoter) taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A variety of proposals have been advanced to prohibit such investments. Nonetheless, a prior governmental moratorium on certain specialty hospitals has been lifted, and therefore specialty hospitals may continue to represent a competitive challenge for full-service hospitals.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

Antitrust. While enforcement of the antitrust laws against hospitals has been less intense in recent years, antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines.

Employer Status. Hospitals are major employers, with mixed technical and non-technical workforces. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on one or more Members of the Obligated Group and, in turn, their ability to make payments with respect to the Bonds.

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, various labor unions repeatedly attempt to organize employees at hospitals, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation.

Hoag Hospital's employees currently are not covered by collective bargaining agreements. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – EMPLOYEES."

Wage and Hour Class Actions and Litigation. Federal law and many states, including notably California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to Hoag Hospital could have a material adverse impact on their financial conditions and results of operations.

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the

employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

Staffing. In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial condition and results of operations of hospitals.

California imposes mandatory nurse staffing ratios for all hospital patient care areas. The nurse to patient ratio standards increased as of January 1, 2008. The impact on California hospitals will vary by facility, but the required staffing, in aggregate, is more costly than prior staffing patterns.

Professional Liability Claims and General Liability Insurance. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Beginning in October 2008, CMS will not reimburse hospitals for medical costs arising from certain “never events,” which will include specific preventable medical errors such as performing surgery on the wrong body part. It is anticipated that HMOs and other private insurers may follow suit. The occurrence of “never events” may be more likely to be publicized and may negatively impact a hospital’s reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

Litigation also arises from the corporate and business activities of hospitals, from a hospital’s status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of Hoag Hospital if determined or settled adversely.

There is no assurance that Hoag Hospital will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against it or that such coverage will be available at a reasonable cost in the future.

Other Class Actions. Hospitals have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of Hoag Hospital. The tax-exempt status of the Bonds depends upon the maintenance by Hoag Hospital of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is dependent on compliance by Hoag Hospital with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

Hoag Hospital participates in a variety of joint ventures and transactions with physicians and others either directly or indirectly. Management believes that the joint ventures and transactions to which Hoag Hospital is a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least \$500 million in assets or \$1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that Hoag Hospital has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be jeopardized. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by Hoag Hospital potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of Hoag Hospital and defaults in covenants regarding the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of Hoag Hospital. For these reasons, loss of tax-exempt status of Hoag Hospital could have a material adverse effect on the financial condition of Hoag Hospital.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and tax-exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS. Given the size of Hoag Hospital, the wide range of complex transactions entered into by it, and potential exemption risks, Hoag Hospital could be at risk for incurring monetary and other liabilities imposed by the IRS.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain “excess benefit transactions” involving 501(c)(3) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct

impact on Hoag Hospital or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these “intermediate sanctions” rules.

State and Local Tax Exemption. Until recently, the State of California has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. In California it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by Hoag Hospital of federal tax exemption would also trigger a challenge to its state tax-exemption. Depending on the circumstances, such event could be material and adverse.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of Hoag Hospital is currently treated as exempt from real property taxation. Although the real property tax exemption of Hoag Hospital with respect to its core hospital facilities has not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemption of Hoag Hospital.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of Hoag Hospital by requiring payment of income, local property or other taxes.

Maintenance of Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury, and a requirement that the City file an information report with the IRS. Hoag Hospital has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by Hoag Hospital to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. The City has covenanted in the Bond Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector, with specific review of private use. In addition, the IRS states that it has sent post-issuance compliance questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower’s (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, more will be sent to additional nonprofit organizations. In addition to such questionnaires, the IRS has commenced a number of examinations of hospital tax-exempt bond issuances with wide-ranging focus similar to the questionnaires described above. One aspect of these examinations may be to determine if certain bond issuances qualify for their tax-exempt status. Hoag Hospital received and responded to such a questionnaire.

The IRS has also added a new Schedule H to IRS Form 990 – Return of Organizations Exempt From Income Tax, on which hospitals and health systems will be asked to report how they provide

community benefit and to specify certain billing and collection practices. The new schedule also requests detailed information related to all outstanding bond issues of nonprofit borrowers, including information regarding operating, management and research contracts as well as private use compliance.

There can be no assurance that responses by Hoag Hospital to an IRS examination or questionnaire, or Form 990, will not lead to an IRS review that could adversely affect the tax-exempt status or the market value of the Bonds or of other outstanding tax-exempt indebtedness of Hoag Hospital. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of Hoag Hospital, may be, from time to time, subject to examinations by the IRS. Hoag Hospital believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." Hoag Hospital has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds. See "TAX MATTERS" herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code.

As a tax-exempt organization, Hoag Hospital is limited with respect to its use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation or revocation of Hoag Hospital's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on Hoag Hospital and might lead to loss of tax exemption of interest on the Bonds.

Charity Care Legislation. Legislative bodies have considered legislation concerning the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that nonprofit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of nonprofit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of Hoag Hospital and other Obligated Group Members to federal or state income taxes or to other tax penalties and adversely affect the ability of the Obligated Group Members individually and of the Obligated Group, taken as a whole, to generate net revenues sufficient to meet its obligations and to pay the debt service on the Bonds and its other obligations.

Other Risk Factors

Facility Damage, Earthquakes and other Disasters. The occurrence of a natural or man-made disaster could damage the Obligated Group's facilities, interrupt utility service to such facilities, result in an abnormally high demand for health care services or otherwise impair the Obligated Group's operations and the generation of revenues from the facilities effected. Further, many hospitals in California, including Hoag Hospital, are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable the hospital facility of Hoag Hospital or one or more buildings owned by NHC. Risks related to natural or other disasters may be particularly acute for the Obligated Group which currently derives most of its operating revenues from a single campus location.

California law requires each acute care hospital in the state to have either complied with new hospital seismic safety standards or to have ceased acute care operations by January 1, 2008. California law allows three types of extensions of the January 1, 2008 deadline. First, the compliance deadline can be extended if a hospital shows that capacity lost in the closure of a facility may not be provided by another facility in the area, or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. The second type of extension allows the above 2013 deadline to be delayed up to an additional two years if the hospital is under construction at the time of the extension request, has submitted building plans, permits, timelines and status reports to OSHPD by the requisite deadlines, and is making reasonable progress in meeting its timeline. The third type of extension allows an acute care hospital that serves an otherwise underserved community and that qualified for the 2013 to further delay the deadline to 2020 upon satisfaction of stated progress timelines set out in the statute. Hoag Hospital expects to achieve compliance with these deadlines. In addition, OSHPD has been directed to review the previously established seismic performance categories for hospital buildings using a software program, "HAZUS." Submission for requests for re-evaluation under HAZUS may result in buildings being re-categorized so that they will not be required to meet seismic standards until 2030. See APPENDIX A – "INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – FACILITIES DESIGN AND CONSTRUCTION."

Natural Gas. Hoag Hospital is located in an area subject to the natural gas seepage of methane and hydrogen sulfide. Methane is a malodorous asphyxiate as well as being highly explosive at certain concentrations in the air. The gas seepage is the result of geological conditions that permit the vertical migration of gas from the West Newport Oil Field. This geological condition is in close proximity to the surface underneath the lower campus of Hoag Hospital's Newport Beach facilities. To address the potential hazards associated with this gas seepage Hoag Hospital has designed and constructed a gas extraction and treatment facility capable of extracting the gas from the underlying strata before it is able to reach the surface. Each year the Hoag Hospital plant removes approximately 42 million cubic feet of gases from the underlying strata. Hoag Hospital utilizes a portion of the extracted gas to assist in the heating and cooling of its facilities. In 2002, the extraction and treatment facility was awarded recognition from the Orange County Chapter of the American Society of Civil Engineers as the "Best Environmental Project of the Year." In addition, certain structures on the lower portion of Hoag Hospital campus, including structures encompassed by the Capital Plan (as defined in APPENDIX A hereto), were and will be constructed with gas mitigation measures including subslab gas impermeable membrane, interior ventilation and interior gas detection systems, as required.

Risks Related to Outstanding Variable Rate Obligations. The 2008 Bonds and the remaining \$172,950,000 of the City's Insured Revenue Bonds Series 2007D and 2007E issued for the benefit of Hoag Hospital as bonds bearing interest at an Auction Rate will continue to be variable rate obligations, the interest rates on which could rise significantly. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because Hoag Hospital would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents. Recent credit market turmoil in the auction rate markets and dislocation among various bond insurers triggered suddenly high interest costs to many healthcare organizations.

The Additional 2008 Bonds are expected to be issued concurrently with the Bonds and will initially bear interest, for the Series 2008A and Series 2008B Bonds, in a Serial Bond Interest Rate Period of approximately one year, and for the Series 2008C Bonds, in a Weekly Interest Rate Period, . However, the Additional 2008 Bonds will not initially be secured by a Credit Facility or a Liquidity Facility. The Obligated Group has covenanted to pay the Purchase Price for any Additional 2008 Bonds tendered from time to time. Any deterioration in the financial condition of the Obligated Group would result in optional tenders or higher variable interest rates on the Additional 2008 Bonds.

Hoag Hospital has entered into the Interest Rate Swap Agreements which will be subject to periodic “mark-to-market” valuations and at any time may have a negative value to Hoag Hospital. The Swap Provider may terminate any Interest Rate Swap Agreement upon the occurrence of certain “termination events” or “events of default.” Hoag Hospital may terminate the Swap at any time. If either the Swap Provider or Hoag Hospital terminates any of the Interest Rate Swap Agreements during a negative value situation, Hoag Hospital may be required to make a termination payment to the Swap Provider, and such payment could be material. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION.”

Contributions. Hoag Hospital regularly receives substantial contributions from the Hoag Hospital Foundation and members of the local community. While Hoag Hospital has an active contribution development program, there can be no assurances that Hoag Hospital will be the recipient of substantial contributions in the future. A significant portion of the total cost of the Capital Plan (up to approximately \$315 million) is expected to be paid from such contributions. Failure to raise this amount would require Hoag Hospital to modify the Project or provide additional funds from other reserves or sources. Any reduction in projected philanthropic support, whether in connection with the Project or otherwise, would have a material adverse impact on the financial condition of Hoag Hospital.

Investments. Hoag Hospital has significant holdings in a broad range of investments. Adverse events and market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. For a discussion of Hoag Hospital’s investments, see APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Liquidity and Investment Policy.”

Construction Risks. Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, changes in scope of development, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds.

In particular, substantial portions of the Project and Capital Plan involve construction of new facilities and rehabilitation and retrofitting of existing facilities of Hoag Hospital. In such circumstances, the possibility of cost overruns, scope of work revisions or inadequate initial estimates of cost of completion of the Project and the Capital Plan is particularly acute. Also, some components of the Project are in early stages of development where costs have been estimated based on architects’ and engineers’ estimates, but plans, specifications and construction drawings have not been developed and have not been bid to contractors or resulted in construction contracts. See APPENDIX A – “INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES – FACILITIES DESIGN AND CONSTRUCTION – The Project.”

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of health care providers, including Hoag Hospital, or the market value of the Bonds, to an extent that cannot be determined at this time.

(a) Adoption of legislation that would establish a national or statewide single-payor health program or other health care system legislation or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

- (b) Reduced demand for the services of Hoag Hospital that might result from decreases in population.
- (c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- (d) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- (e) The occurrence of a natural or man-made disaster that could damage Hoag Hospital's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair Hoag Hospital's operations and the generation of revenues from the facilities.
- (f) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Code and is exempt from state of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in APPENDIX D hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City and Hoag Hospital have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond

Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to Hoag Hospital, regarding the current qualification of Hoag Hospital as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of Hoag Hospital concerning Hoag Hospital's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to Hoag Hospital has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to Hoag Hospital can give or has given any opinion or assurance about the future activities of Hoag Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of Hoag Hospital to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to Hoag Hospital's charitable purposes under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from state of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or Hoag Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and Hoag Hospital have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City, Hoag Hospital or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City, Hoag Hospital and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City or Hoag Hospital legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City, Hoag Hospital or the Beneficial Owners to incur significant expense.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example of the judicial process relating to the tax treatment of bonds issued by states and local governments, on May 19, 2008, the United States Supreme Court, in overturning a Kentucky state court, held that the United States Constitution does not prohibit a

state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel to the City. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the City by the City Attorney, for Hoag Hospital by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, for the Underwriter by its counsel, Foley & Lardner LLP, Chicago, Illinois, which also undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement and for the Bank by John S. Barry, Assistant General Counsel, Bank of America, N. A. Legal Department and by Morrison & Foerster LLP special counsel to the Bank. From time to time Stradling Yocca Carlson & Rauth, a Professional Corporation, represents the Underwriter and the City in matters unrelated to the Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of Hoag Memorial Hospital Presbyterian and Affiliates as of August 31, 2007 and 2006 and for the years then ended, included in APPENDIX B-1, have been audited by Ernst & Young LLP, independent auditors, as stated in their report included in APPENDIX B-1.

INTERIM FINANCIAL STATEMENTS

The consolidated financial statements of Hoag Memorial Hospital Presbyterian and Affiliates for the six-month periods ended February 29, 2008 and February 28, 2007, included in Appendix B-2, were compiled by management of Hoag Hospital and are unaudited. However, in the opinion of management of Hoag Hospital, all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements have been included. Operating results for the six-month period ended February 29, 2008 are not necessarily indicative of the results which may be achieved for any future periods.

LITIGATION

Hoag Hospital and NHC

There is no controversy or litigation of any nature now pending against Hoag Hospital or NHC or, to the knowledge of its officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of Hoag Hospital taken concerning the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds. There can be no assurance, however, that future litigation will not have a material adverse effect on Hoag Hospital, NHC or the Obligated Group as a whole.

As with most health care providers, Hoag Hospital and NHC is each subject to certain legal actions that, in whole or in part, are not or may not be covered by insurance (or reinsurance as to certain self-insured risks) because of the type of action or amount or types of damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier, or because the action has not proceeded to a stage that permits full evaluation. There are certain legal actions currently pending against

Hoag Hospital known to management for which insurance coverage is uncertain or inapplicable for the above reasons. Management does not anticipate that any such suits will ultimately result in punitive damage awards or judgments in excess of applicable insurance limits, or if such awards or judgments were to be entered, that they would have a material adverse impact on the financial condition of Hoag Hospital, NHC or the Obligated Group.

Other than as described above, there is no litigation of any nature now pending against Hoag Hospital or NHC, to the knowledge of each Member's respective officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of Hoag Hospital, NHC or the Obligated Group.

The City

To the knowledge of the officers of the City, there is no litigation of any nature now pending or threatened against the City, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the City taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the City relating to the issuance of the Bonds.

RATINGS

Hoag Hospital received ratings of "AAA/A-1+" and "Aaa/VMIG1" from Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") and Moody's Investors Service ("Moody's"), respectively, for the Bonds, with the understanding that, upon the issuance of the Bonds, the Letter of Credit will be issued by the Bank. S&P and Moody's confirmed a "AA" and "Aa3" long-term rating underlying rating with respect to the Bonds. Hoag Hospital has furnished to Standard & Poor's and Moody's certain information and materials concerning the Bonds and itself. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. For additional information about the Bank and its ratings, see "THE BANK, THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT — Bank of America, N.A."

Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. The City has undertaken no responsibility either to bring to the attention of the Holder or beneficial owners of the Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the ratings might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter"). Pursuant to the Purchase Contract for the Bonds, the Underwriter has agreed to purchase the Bonds at a purchase price of \$249,662,500 (consisting of the aggregate principal amount of the Bonds of \$250,000,000.00, less an underwriter's discount of \$337,500) and less the premium for the Bond Insurance Policy. The Purchase Contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreements of Hoag Hospital to indemnify the Underwriter and the City against certain liabilities. Sale and purchase of the Bonds is contingent on concurrent sale of the Additional 2008 Bonds.

The initial public offering price of the Bonds set forth on the inside cover page may be changed without notice by the Underwriter.

CERTAIN RELATIONSHIP

Citibank N.A., New York, a party to the Interest Rate Swap Agreements, is affiliated with the Underwriter.

FINANCIAL ADVISOR TO HOAG HOSPITAL

Kaufman, Hall & Associates, has served as financial advisor to Hoag Hospital in connection with the financing described in this Official Statement. Kaufman, Hall & Associates is a national consulting firm which acts as financial advisor to healthcare organizations, particularly in the areas of short- and long-term debt financings, mergers and acquisitions and overall capital planning.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 5 and Obligation No. 5 and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 5 and Obligation No. 5 may be obtained during the offering period upon request directed to the Underwriter and, thereafter, upon request directed to the corporate trust office of the Bond Trustee.

The information contained in this Official Statement has been compiled or prepared from information obtained from Hoag Hospital and official and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The City furnished only the information contained under the headings "THE CITY" and "LITIGATION—The City" and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement has been delivered by the City and approved by Hoag Hospital. The Bond Trustee has not participated in the preparation of this Official Statement. This Official Statement is not to be construed as a contract or agreement among any of the City, Hoag Hospital and the purchasers or Holders of the Bonds.

CITY OF NEWPORT BEACH

By: /s/ Dennis Danner
Authorized Officer

Approved:

HOAG MEMORIAL HOSPITAL PRESBYTERIAN

By: /s/ Jennifer C. Mitzner
Senior Vice President and
Chief Financial Officer

APPENDIX A

INFORMATION CONCERNING HOAG MEMORIAL HOSPITAL PRESBYTERIAN, NEWPORT HEALTHCARE CENTER, LLC AND OTHER AFFILIATES

The information contained in this Appendix A has been obtained from Hoag Memorial Hospital Presbyterian.

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GENERAL

History

Hoag Memorial Hospital Presbyterian (the “Corporation”) was incorporated as a nonprofit corporation under the laws of the State of California on May 22, 1944. The Corporation is currently operating as a nonprofit public benefit corporation under the laws of the State of California. The Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and is not a private foundation under Section 509 of the Code. The initial funding for the Corporation was provided in half by the George Hoag Family Foundation and in half by funds raised from the community through the Presbyterian Church.

Mission

The Corporation’s mission as a not-for-profit, faith-based hospital is to provide the highest quality healthcare services to the communities it serves. Inspired by the vision of its founders and community partners and the dedication of its employees and physicians, the Corporation is committed to being a leading hospital in California, renowned for its excellence, specialized healthcare services and exceptional physicians and staff. The Corporation promotes five core values: excellence, respect, integrity, patient centeredness and community benefit.

Core Strategies

To realize its vision, the Corporation has established a 10-year strategic plan which includes key initiatives in the areas of quality and service, people, physician partnerships, strategic growth, financial stewardship, and community benefit and philanthropy.

In the area of quality and service, the Corporation plans to realign the medical staff along service lines to better meet the needs of patients in specialty areas such as cancer, heart and valve, orthopedics, neurosciences and women’s health. The Corporation also plans to enhance capabilities in performance improvement for specific clinical conditions and patient safety.

In the area of physician partnership, the Corporation is committed to creating sustainable, mutually beneficial partnerships with exceptional physicians by looking for additional economic partnership opportunities, expanding the availability of medical office space within its service area, and developing and implementing physician connectivity tools.

With respect to strategic growth, the Corporation strives to become the hospital of choice throughout Orange County in its chosen areas. As part of this strategy, the Corporation plans to undertake initiatives to expand the development of its Centers of Excellence to include a comprehensive service line approach to health care and to expand and develop its base of primary care physicians. The Corporation’s vision for the next decade centers on becoming a regional referral center of prominence, recognition and significance.

Additionally, the Corporation expects to implement an initiative known as “Renaissance Hoag,” a capital fundraising campaign targeting donations in the approximate amount of \$315 million designed to further the organization’s strategies and mission.

Hospital Facilities

The Corporation established a nonprofit acute care hospital (the “Hospital”) licensed for 75 beds in the City of Newport Beach, California (the “City”) in 1952. The primary Hospital facility is on a 37-acre parcel in Newport Beach in a campus-like setting of 36 buildings, including 3 parking structures and approximately 2,271 parking spaces. The current square footage, measured for purposes of City land use entitlements, is approximately 886,000 square feet. The total gross building area for all buildings, including parking and temporary structures, as well as other spaces that do not count against allowable square footage, is approximately 1,857,000 square feet. The Hospital underwent major expansions in 1969, 1974, 1990, and 2005 and is currently licensed for 498 general acute care beds. Further major improvement projects have been undertaken in recent years and are ongoing. See

“FACILITIES DESIGN AND CONSTRUCTION — The Project” below. The Hospital is licensed by the Department of Public Health of the State of California as a general acute care hospital and is accredited by The Joint Commission (the “Joint Commission”).

In January of 1991, the Corporation opened the Patty and George Hoag Cancer Center (approximately 63,000 square feet) located on the Hospital’s campus in Newport Beach (the “Cancer Center”). The Cancer Center provides three linear accelerators, a day hospital for chemotherapy, a biotherapeutics laboratory and physician offices for medical oncologists.

In October of 2005, the Corporation opened the Sue and Bill Gross Women’s Pavilion (the “Pavilion”), located on the Hospital’s campus in Newport Beach, which combines progressive technology with patient education and comfort. The building is a seven-story, approximately 345,000 square-foot facility, that has added 102 licensed beds and provides expanded clinical space. The Pavilion serves as the new main entrance for the Hospital and houses more than 15 new and existing services, including Women’s Health Services, a Comprehensive Breast Center, Laboratory Services, Patient Registration, Patient Education and a hospitality center, as well as 6 new operating rooms. Additionally, the Pavilion has been designed to address variables such as evolving technologies and healthcare delivery modalities, population growth, aging demographics and healthcare needs specific to Orange County residents.

In 2006, the Corporation completed the construction of a Cogeneration Plant, a base-loaded plant to generate power. The new two-story, approximately 27,000 square-foot facility, is located on the lower portion of the Hospital’s campus in Newport Beach and houses generators capable of supplying as much as 4.4 megawatts of power. The Cogeneration Plant captures its waste heat and converts it to chilled and hot water which is used for air conditioning and heating systems of the Hospital to maximize energy output. The Cogeneration Plant became operational in March 2007.

The Corporation has funded improvements from its own resources and the proceeds of loans from prior revenue bond issues of the City. As of February 29, 2008, such loans were outstanding in the aggregate principal amount of \$622,950,000. The Corporation utilized the proceeds of the City’s \$200,000,000 Auction Rate Securities (Hoag Memorial Hospital Presbyterian) 2005 Series A, B and C (the “2005 Bonds”), and additional monies to fund construction of the Cogeneration Plant, the Sue and Bill Gross Women’s Pavilion, replacement of certain Hospital infrastructure and other general capital expenditures. Proceeds of the 2005 Bonds are fully expended. The Corporation is utilizing a portion of the proceeds of the City’s \$422,950,000 Auction Rate Securities (Hoag Memorial Hospital Presbyterian) 2007 Series A, B, C, D and E (the “2007 Bonds”), and additional monies to fund construction, renovation and replacement of certain Hospital facilities and other general capital expenditures, including expanded and updated improvements to the Hospital campus. See “FACILITIES DESIGN AND CONSTRUCTION — The Project” below.

The Corporation currently operates two free-standing facilities for outpatient surgery. The first, the James Irvine Surgery Center, was opened on the Hospital campus in 1972 and contains three operating rooms. The second, Newport Surgicare, opened in 1983 and contains four operating rooms; it is located four miles from the Hospital in one of four major medical office buildings in Newport Center.

In 2006, the Corporation continued its commitment to community-based healthcare by establishing Hoag Health Center – Woodbury and Hoag Health Center – Newport Beach. With these two new additions, the Corporation now operates seven medical office buildings (“Health Centers”) outside the primary Hospital facility in the communities of Irvine (approximately 33,000 square feet), North Irvine – Woodbury (approximately 5,800 square feet), Huntington Beach (approximately 53,000 square feet), Costa Mesa (approximately 20,000 square feet), Aliso Viejo (approximately 33,000 square feet), Fountain Valley (approximately 8,263 square feet) and Newport Beach (approximately 300,000 square feet). The Health Centers are fully operational except for the Hoag Health Center-Newport Beach, which is still under development as further described below.

The Corporation owns the land and facilities on the main campus in Newport Beach. The Corporation also owns the facilities and land at the Huntington Beach, Irvine and Aliso Viejo Health Centers, and leases space in the Costa Mesa, Fountain Valley and North Irvine – Woodbury Health Centers. The Health Center in Newport Beach is owned and operated by Newport Healthcare Center, LLC, a wholly-owned subsidiary of the Corporation and a

Member of the Obligated Group as defined in the Master Trust Indenture, dated as of May 1, 2007 (the “Master Indenture”).

In January 2008, the Corporation purchased a medical office building in close proximity to the Hospital campus. The building, which provides approximately 24,209 square feet of leaseable space, is currently fully occupied. The leases are subject to different terms and there can be no assurance that the various leases will be renewed at the time of expiration.

From time to time, the Corporation considers opportunities with regards to its Health Centers and other real estate holdings, including possible sale or monetization of properties. The Corporation would only undertake such an opportunity if, following management and Board review, it was deemed to benefit the Corporation’s finances or operations, and to fit within the strategic direction of the organization.

Newport Healthcare Center

In February 2006, Newport Healthcare Center, LLC (“NHC”), a wholly-owned subsidiary of the Corporation, purchased the Newport Technology Center, an approximately 300,000 square-foot facility located several blocks north of the primary Hospital campus. The office complex will provide space for certain administrative support functions and clinical services, including expansion for outpatient imaging services, such as multi-slice CT, PET Scan and advanced MRI, as well as physician medical office space. The Corporation began relocation of certain administrative functions to the Newport Beach Health Center in 2007 and expects to complete relocation of additional administrative functions in the latter half of 2008. The Corporation expects certain clinical services to be established and operational in the latter half of 2008. The Corporation currently expects to lease approximately 40% to 50% of the leaseable space in the building complex from NHC.

NHC has obtained city approvals to fully transition the property to medical office space. Leasing of medical office space is currently expected to commence in the latter half of 2008, with substantial occupancy expected by 2010. Approximately seventy-eight percent of the facility remains vacant as of February 29, 2008. The remaining estimated cost to develop NHC’s property is approximately \$49 million; however, the ultimate uses for the facility are subject to change.

As of February 29, 2008, NHC represented 6% of the Total Assets of the Obligated Group. In its current development phase, there are no significant revenues associated with NHC. See “SELECTED UTILIZATION AND FINANCIAL INFORMATION.” For federal tax purposes, NHC is treated as a disregarded entity and a division of the Corporation, which, as noted, is an organization described under Section 501(c)(3) of the Code.

ORGANIZATIONAL STRUCTURE

Obligated Group

Pursuant to the Master Indenture, the Corporation and NHC are the sole Members of the Obligated Group. However, the Corporation is the sole shareholder or is otherwise affiliated with several entities consisting of other wholly-owned subsidiaries and affiliates. References herein to the “Obligated Group” or “Members” mean the Corporation and NHC as of this date, although in the future other entities may become Members of the Obligated Group or Members may withdraw from the Obligated Group in accordance with the terms of the Master Indenture.

In 2005, the Corporation formed NHC as a Delaware limited liability company, the sole member of which is the Corporation, to own and operate a medical office building as described above. The Corporation originally capitalized NHC with \$85 million. Although NHC is a Member of the Obligated Group, the Corporation expects to make all payments with respect to the City’s Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008A, 2008B, 2008C, 2008D, 2008E and 2008F (collectively, the “2008 Bonds”) from its own funds.

Other Affiliated Entities Not Members of the Obligated Group

Wholly-Owned Subsidiaries Which Are Immaterial Affiliates

The Corporation is the sole shareholder and appoints one-half of the board members of Coastal Physician Purchasing Group Inc. (“CPPG”), a for-profit corporation which provides shared purchasing services for physicians. The Corporation is also the sole shareholder and appoints all of the board members for Hoag Practice Management Inc. (“HPMI”), a for-profit corporation which used to provide professional services to other entities including physicians and the Corporation. Effective December 31, 2007, the Corporation discontinued a substantial portion of this line of business, which included the sale of the majority of its assets and assignment of its management contracts to a third party which assumed certain of HPMI’s liabilities in consideration. The Corporation is also the sole member of Bluff View, LLC, an entity created in 2006 for the purpose of purchasing certain non-operating property. As of February 29, 2008, the net assets of Bluff View, LLC were \$0.8 million. Bluff View, CPPG and HPMI are collectively referred to herein as “Immaterial Affiliates” and they currently constitute Immaterial Affiliates as defined in the Master Indenture. They are not Members of the Obligated Group and are not obligated with respect to the 2008 Bonds.

References herein to the “Wholly-Owned Subsidiaries” shall mean Bluff View, CPPG, HPMI and NHC; however, Bluff View, CPPG and HPMI are not Members of the Obligated Group and are not obligated with respect to the Bonds.

The Corporation is also affiliated with the Hoag Hospital Foundation, Newport Imaging Center, Newport Beach Lido Surgery Center, Hoag Endoscopy Center and Orthopedic Surgery Center of Orange County, and these entities are referred to herein as “Other Affiliates.” **The Other Affiliates are not Members of the Obligated Group and are not obligated with respect to the 2008 Bonds.** See “Other Affiliates” below.

Hoag Hospital Foundation

The Hospital receives support through Hoag Hospital Foundation (the “Foundation”) which is a separate nonprofit 501(c)(3) corporation. The Board of Directors of the Foundation is elected by the Board of Directors of the Corporation. Under the direction of the Foundation, there are four support groups with a total membership of over 3,000 men and women. The audited financial statements of the Foundation are consolidated with those of the Corporation. The assets and liabilities of the Foundation are primarily included in the temporarily and permanently restricted net assets in the consolidated financial statements. As of the fiscal year ended August 31, 2007, the Foundation’s total assets and total net assets were \$142.7 million and \$139.6 million, respectively. In fiscal years ended August 31, 2007 and 2006, the Foundation distributed funds to the Corporation for property and capital additions in the amount of approximately \$6.9 million and \$13.7 million, respectively. The Foundation is not a Member of the Obligated Group and is not obligated with respect to the 2008 Bonds.

In addition to the Foundation, there is also an independent 800-member Auxiliary that supports the Hospital with volunteers and contributions. In addition to the members of the Auxiliary, there are approximately 700 additional volunteers on the campus in Newport Beach supporting the Corporation.

Other Affiliates

The Corporation is the general partner in Newport Imaging Center (“NIC”), a multi-location imaging center, with centers located in Newport Beach and Irvine. The Corporation has a controlling interest in the partnership. In 2008, the Corporation increased its partnership interest to 99.9% and has the option to purchase the remaining interest in 2008.

The Corporation is also a member of Newport Beach Lido Surgery Center, LLC (“NBLSC”), a joint venture between the Corporation and physicians, formed to operate an ambulatory surgery center (“ASC”) in a leased building adjacent to the Hospital. After the initial offering in the fourth quarter of 2006, the Corporation’s current ownership interest in the company is 57%. NBLSC plans to conduct a secondary offering which is expected

to occur prior to August 2008 and the Corporation's ownership interest is expected to be decreased to 50%. The ASC commenced operations in the summer of 2007.

The Corporation is also a member of Hoag Endoscopy Center, LLC ("HEC"), a joint venture between the Corporation and physicians, formed to operate an endoscopy surgery center (the "Endoscopy Surgery Center"). After the initial offering, the Corporation expects to have a controlling interest of 50% or more. It is anticipated that the Endoscopy Surgery Center will commence operations in the Fall of 2008. HEC will be required to obtain certain licenses upon completion of construction and installation of medical equipment prior to commencement of operations.

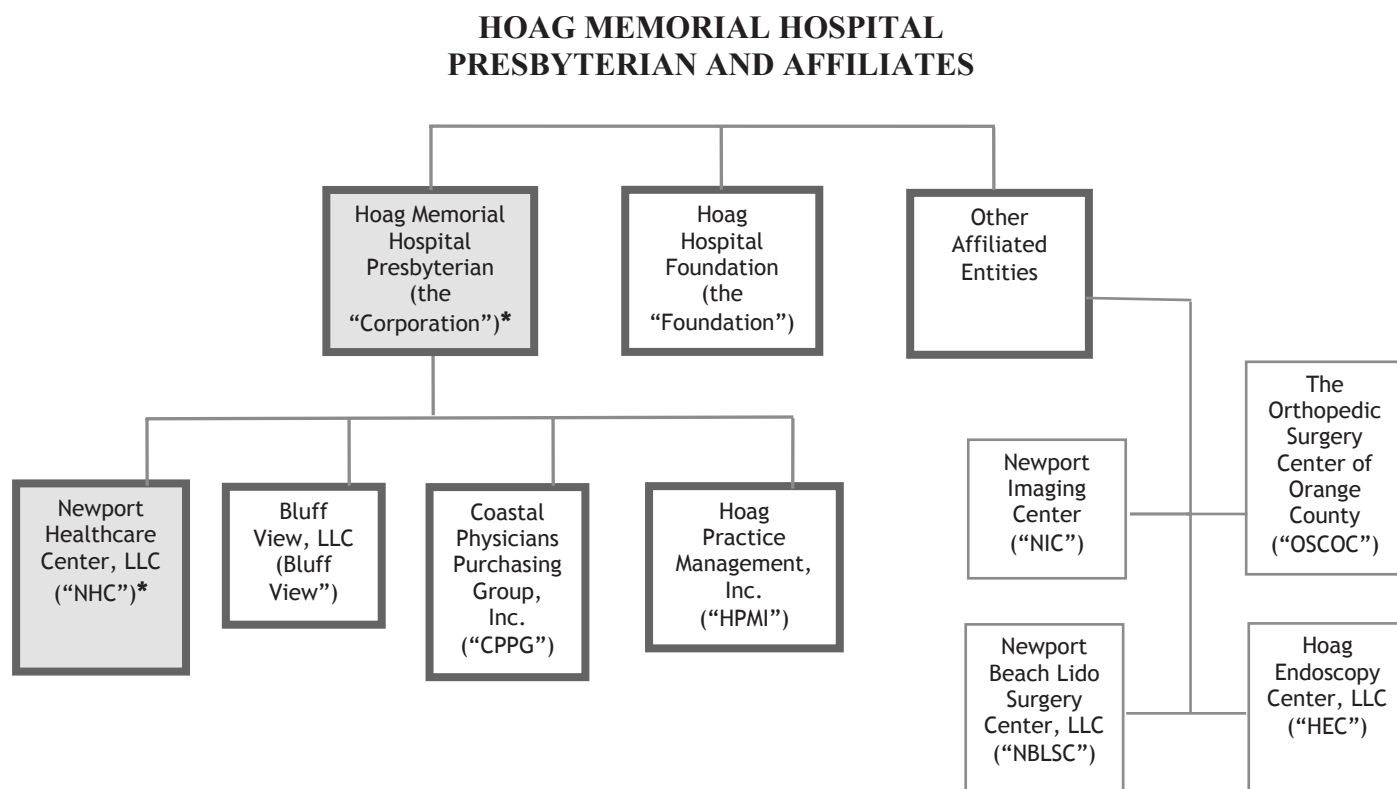
Additionally, the Corporation is a member of a limited liability company which operates an outpatient orthopedic specialty surgery center, The Orthopedic Surgery Center of Orange County, LLC ("OSCOC"). The Corporation has a 20% non-controlling interest in OSCOC.

The financial statements of NIC, NBLSC and HEC are consolidated with those of the Corporation. The results of operations of OSCOC are not consolidated with the results of operations of the Corporation in its financial statements. OSCOC, NBLSC, HEC and NIC are not Members of the Obligated Group and are not obligated with respect to the 2008 Bonds.

From time to time the Corporation may modify its level of participation in its existing ventures or consider additional investments in other joint ventures. All such activities are expected to further the Corporation's strategic interests in accordance with its 10-year strategic plan. See "Potential Affiliations and Transactions" below.

Organization Chart

The following chart depicts the organizational structure of the Corporation, the Corporation's Wholly-Owned Subsidiaries and Other Affiliates.



*The Corporation and NHC are the only Members of the Obligated Group.

Integrated Physician Group Relationship

As of the fiscal year ended August 31, 2007, approximately 12% of the Corporation's and its Wholly-Owned Subsidiaries' Operating Revenue was "capitation" revenue derived through Greater Newport Physicians Medical Group, Inc. ("Greater Newport"). Greater Newport is an independent physicians association ("IPA") with approximately 500 physicians contracted to provide care for over 100,000 capitated lives. "Capitation" refers to a financing arrangement whereby an amount is paid periodically to a health care provider for specified health services, regardless of quantity of services rendered; amounts paid are based on a fixed "per member per month" payment. The Hospital is the primary acute care facility utilized by Greater Newport. The Corporation has a risk-sharing agreement with Greater Newport, which expires on December 31, 2008. Because both the Corporation and Greater Newport have agreements with managed care organizations requiring them to provide services to members on a capitated payment basis, the risk-sharing agreement allows for an allocation and reimbursement of costs and expenses between the Corporation and Greater Newport. The Corporation also contracts to provide outpatient radiology services to Greater Newport's capitated members.

In connection with Greater Newport, the Corporation has entered into its own capitated agreements with health plans covering approximately 12,000 of the over 100,000 capitated lives referenced above, all of which were Senior Medicare risk contracts as of February 29, 2008. See also "SELECTED UTILIZATION AND FINANCIAL INFORMATION – Management's Discussion and Analysis of Financial Information."

HOSPITAL SERVICES

Description of Services

The Hospital is an acute care, not-for-profit hospital located on California's Orange County coastline between Los Angeles and San Diego. Since opening on September 15, 1952, the Hospital has grown from 75 beds to 498; from 68 doctors to over 1,100 and from 60 employees to more than 4,000. In the fiscal year ended August 31, 2007, the Corporation treated approximately 28,000 inpatients and over 337,000 outpatients.

The Hospital is among the top five percent of hospitals in the nation based on a recent study by HealthGrades, and is a recipient of the 2008 Distinguished Hospital Award for Clinical Excellence. National Research Corporation has endorsed the Hospital as Orange County's most preferred hospital for the past 12 consecutive years. For the past 12 years, residents have expressed their consumer preference for the Hospital as Orange County's "Best Hospital" in a local newspaper survey.

The Corporation provides a full spectrum of health care services including, but not limited to:

- cardiology/cardiovascular surgery
- comprehensive cancer services
- women's health
- orthopedics and joint replacement
- radiology (e.g., MRIs and X-rays)
- neurological and neurosurgical services, including Gamma Knife
- general acute medical and surgical services
- robotics
- community medicine
- chemical dependency
- critical care
- specialty programs such as sleep disorders and epilepsy

Approximately 42% of all inpatient admissions in the fiscal year ended August 31, 2007, excluding newborns, were admitted to the Hospital through the emergency department (ED). Within the last year, the ED has seen in excess of 66,000 patients, approximately 181 per day, which is reflected in the continued high census levels.

Centers of Excellence

The Corporation supports five specialty centers referred to as “Centers of Excellence” – Hoag Cancer Center, Hoag Heart and Vascular Institute, Hoag Orthopedic Services, Hoag Women’s Health Services and Hoag Neurosciences Center – through which the Corporation provides a wide range of specialized medical, surgical, diagnostic and therapeutic services.

Hoag Cancer Center

Designated by the American College of Surgeons as a comprehensive community cancer program in late 1990, Hoag Cancer Center is the largest cancer program in Southern California outside of Los Angeles County, as measured by number of cases reported to the California State Tumor Registry Board. As Orange County’s leading provider of radiation therapy and cancer care, the center treats more than 2,100 new patients annually.

In 2008, the Commission on Cancer of the American College of Surgeons (“CoC”) awarded Hoag Cancer Center the CoC Outstanding Achievement Award and granted a new three-year accreditation with commendation as a Comprehensive Community Center Program. Established in 2004, the CoC Outstanding Achievement Award was designated to recognize cancer programs that excel in providing quality care to cancer patients. The CoC recognizes programs that strive for excellence, motivate improvement, foster communication and share best practices and bases its commendations on comprehensive periodic evaluations, including physician surveys.

Hoag Cancer Center provides:

- chemotherapy
- radiation therapy
- sentinel node/lymphatic mapping
- gamma knife treatment of brain tumors
- radioactive seed implantation for prostate cancer
- stereotactic radiotherapy
- high dose rate brachytherapy (HDR)
- intensity modulated radiation therapy (IMRT)
- TomoTherapy
- site specific programs for cancers of the breast, prostate, gastrointestinal, lung and brain cancers
- biotherapy and immunotherapy including interleukin-2 and monoclonal antibodies
- pheresis
- vaccine therapy clinical trials for melanoma, renal cell cancer, and lung cancer
- hereditary cancer program
- cancer data services
- cell biology research laboratory
- robotic surgery
- patient and family support programs
- complementary care program – creative expressions art program, yoga, t’ai chi, aerobics, relaxation/meditation, brighter image, and more
- outpatient treatment clinic with ONS certified nurses
- inpatient oncology unit with ONS certified nurses
- outreach education programs to the community
- weekly continuing medical education conferences for medical staff
- annual comprehensive CME course in medical oncology for physicians, nurse practitioners, physician assistants, and pharmacists
- annual comprehensive CME course for oncology nurses
- cell biology laboratory that produces investigational, patient-specific cell products for cancer therapy
- I-131 therapy for thyroid cancer
- radiolabeled antibody therapy for lymphoma
- comprehensive support and educational services for patients
- multidisciplinary site-specific tumor case conferences

Hoag Cancer Center continues to achieve five-year relative survival rates that exceed national figures for most cancers, as reported in 2007 by the National Cancer Institute’s Surveillance, Epidemiology and End Results (SEER) data for 1996-2002.

Hoag Heart and Vascular Institute

Hoag Heart and Vascular Institute delivers comprehensive care for the cardiovascular patient, from emergency care to complex cardiovascular surgery. With respect to emergency heart care, angioplasty and cardiac stent placement services are available twenty-four hours a day.

The Hoag Heart and Vascular Institute's team of cardiac surgeons have expertise in complex valve surgery including mitral valve repair, in addition to other advanced surgical techniques, such as minimally invasive heart surgery, surgical treatment of arrhythmia and robotic surgery. The Corporation has received high marks in two recently released reports that evaluate hospital-based cardiac surgical programs: The Society of Thoracic Surgeons' ("STS") assessment of clinical performance and The Leapfrog Group's Hospital Quality and Safety Survey's examination of high risk treatments. The STS designated the Corporation with a 3-star rating, the highest possible rating, achieved by only approximately 12 percent of the more than 700 hospitals nationwide that participated in the data submission from which the ratings were derived. The Leapfrog Hospital Quality and Safety Survey findings also reflected the Corporation's excellence in cardiac surgery in an examination of procedural volume, surgical experience and outcomes.

In June 2006, the Corporation introduced the new Hoag Heart Valve Center. The center offers screenings, diagnosis, treatment and surgical expertise, and is dedicated to patient and physician education, on-going clinical research and collaboration and early intervention.

The Hoag Heart and Vascular Institute has also been involved in a series of clinical trials for carotid stents to evaluate the potential for these devices to prevent stroke. The Hoag Heart and Vascular Institute is one of a limited number of Regional Education Centers in California authorized to educate other physicians in this new technology.

Hoag Heart and Vascular Institute specialties include:

- anticoagulation clinic
- cardiac rehabilitation
- cardiac surgery
- diagnostic & interventional cardiology
- electrophysiology services
- emergency treatment
- endovascular diagnosis and therapy
- arrhythmia center
- patient & community education
- clinical trials and research
- vascular surgery
- vascular lab
- heart valve center
- cardiac catheterization lab
- endovascular lab

Hoag Orthopedic Services

Hoag Orthopedic Services has the largest medical staff in Orange County, including more than 30 physicians specializing in advanced orthopedic and spine procedures, including minimally invasive techniques and total joint replacement. Based on State of California Office of Statewide Health Planning and Development ("OSHDP") data for the last ten years ended as of December 2006, the Hospital's physicians perform more orthopedic inpatient procedures than any other hospital in Orange County and more total joint replacements (hip and knee) than any other hospital in California.

Hoag Orthopedic Services offers:

- state-of-the-art diagnostic services
- advanced surgical treatments
- arthroscopic surgery
- partial and total joint replacement
- complex spine/back surgery
- minimally invasive procedures
- non-surgical treatments
- emergency treatment of injuries
- sports medicine
- clinical research
- rehabilitation services
- community education

The Corporation provides an integrative approach to patient care. For example, the Institute for Spine implements a collaborative effort between the neurosurgeons and orthopedic surgeons. The close partnership between the medical specialties creates a synergy that enhances the spine surgery center. Patients are provided access to advanced medical techniques and the opportunity to participate in a variety of clinical trials.

Also, through its total joint program, JointWorks®, the Corporation combines joint replacement surgery with patient education and rehabilitation processes to help motivate, encourage and support patients and their families before, during and after surgery.

Hoag Women's Health Services

Providing high quality health care for women has always been a priority at the Hospital. In late 2005, the Corporation opened the Sue and Bill Gross Women's Pavilion, a comprehensive center that combines progressive technology with patient education, comfort and exceptional care.

The many aspects of Women's Health encompassed in the Pavilion include a maternal/child program that provides advanced mother and infant care through the philosophy of Family-Centered Maternity Care. Also available is a wide variety of prenatal and postpartum education resources and support services. Total births were 5,240, or approximately 14 per day, for the fiscal year ended August 31, 2007.

The Sue and Bill Gross Women's Wellness Center, the first of its kind in Southern California, strives to promote an integrative approach to healthy living. The center focuses not only on a woman's physical health, but also on the relationship between body, mind and spirit.

The Corporation's Breast Care Center provides direct-to-digital mammography, dedicated breast MRI, breast ultrasound, minimally invasive breast biopsy, as well as perioperative consultations by surgical breast specialists.

The Corporation's Sexual Medicine Program addresses sexual health and intimacy issues for women of all ages and sexual orientation, specializing in those with chronic or life threatening illness.

Additional Hoag Women's Health Services include:

- pregnancy & prepared childbirth
- neonatal intensive care
- minimally invasive surgery and robotics
- obstetrics education
- survivorship medicine
- fetal diagnostics and high-risk obstetrics
- patient & family education
- community education
- gynecologic oncology

Hoag Hospital Neurosciences Center

The Hospital is one of only a few medical centers in Orange County with a dedicated neurosciences center, offering prevention, diagnosis, management and treatment for all complex neurological conditions including stroke, brain tumors, dementia, epilepsy, Parkinson's disease, sleep disorders and more.

Hoag Neurosciences Center brings together a multidisciplinary team of medical experts who specialize in the fields of neurology, neurosurgery, neuroradiology, neurovascular telemetry, Gamma Knife, epilepsy, neuro radiation oncology, neuropathology and neuropsychology. With specialty-trained interventional neuroradiologists, the Hospital offers advanced interventional procedures such as carotid stenting and brain aneurysm coiling. With dedicated neurohospitalists, the Hospital is well-equipped to respond to neurological emergencies.

Hoag Neurosciences Center provides an integration of services specializing in the following:

- stroke
- brain tumors
- brain aneurysms /vascular malformations
- Alzheimer's / Dementia
- movement disorders / Parkinson's disease
- epilepsy
- sleep disorders
- spinal tumors
- headache
- pain and sensory disturbances
- neurosurgery
- neurology
- neuro radiation oncology
- neuroradiology
- interventional neuroradiology
- epilepsy monitoring
- gamma knife
- neuro hospitalists
- neuropathology
- neuropsychology
- neuro rehab
- neurodiagnostic lab
- sleep lab

Other Services

Community Medicine

The Corporation provides charitable community benefit programs that meet those required by California law governing community healthcare needs assessments and nonprofit hospital community benefit plans. The Corporation's Community Benefit Plan consists of programs that are conducted primarily as collaborative partnerships within Orange County without financial return to the Corporation or expectation of business augmentation. The Plan is designed to improve access to health care for vulnerable populations and the overall physical and social health status of local communities. Working with in-kind services and direct monetary donations to support nonprofit organizations, and focusing on disproportionate unmet health needs, the Corporation's Community Benefit Plan addresses primary prevention, chronic disease management and health promotion through:

- patient & family support groups
- financially uncompensated clinical research
- health education classes
- informational programs & materials
- enhancement of access to health care
- screening & immunization programs
- general & emergency medical services for vulnerable populations
- resource referral services
- culturally and linguistically appropriate counseling services for at-risk families and youth
- community partnerships, such as those with the Share Our Selves (SOS) Free Medical and Dental Clinic and Adult Day Services of Orange County
- culturally and linguistically appropriate community case management for vulnerable populations
- support and creation of public health partnership programs targeting specific entities (i.e., domestic violence, teen pregnancy, diabetes, obesity, and youth gangs)
- health ministries parish nurse program
- senior transportation programs

Pediatric Care: Affiliation with Children's Hospital of Orange County

In January 2007, the Corporation announced a new alliance with Children's Hospital of Orange County ("CHOC"), one of the premier facilities for pediatric care in the county. Through a formal affiliation agreement with CHOC, executed in February 2007, the Corporation expanded its pediatric outpatient services, and created an expedited system of evaluation and transfer of children and infants with critical illnesses and special needs to

CHOC. The affiliation significantly benefits pediatric patients in need of emergency care. Using robotic telemedicine technology, critical care specialists stationed remotely at CHOC are available to assist Hoag Emergency Medicine physicians in the evaluation and care of pediatric patients in the Hoag Emergency Department (“ED”). This enhancement to care is available 24 hours a day to children seen in the Hoag ED. Emergency transport services between the Corporation and CHOC are also improved. Dedicated transport teams from CHOC, consisting of a physician, nurse and respiratory therapist, are readily available to transport pediatric patients via ambulance when a child’s complexity of care or severity of illness requires admission at CHOC.

Through this new affiliation with CHOC, the Corporation’s neonatal care services have been expanded. Pediatric Subspecialty Faculty (“CHOC PSF”), a nationally recognized specialty physician group affiliated with CHOC, staffs and provides medical management to the Corporation’s Neonatal Intensive Care Unit, enhancing clinical capabilities in support of the Corporation’s growing obstetrical and perinatal programs.

Effective April 1, 2008, the Corporation plans to phase out its inpatient services for children under the age of 16. However, the Corporation plans to begin new services through its expanded partnership with CHOC in order to bolster its pediatric care program. In the fall of 2008, a CHOC pediatric specialty clinic is expected to open at Hoag Health Center – Newport Beach, which is owned and operated by Newport Healthcare Center, LLC. This CHOC specialty clinic will offer pediatric specialists in diabetes, asthma, cardiology and neurology, among other areas. Hoag Health Center – Newport Beach will also house UrgiKids, an after-hours urgent care service for children currently based in Costa Mesa, thereby enhancing the pediatric services that will be available through the Corporation’s expanded partnership with CHOC.

Bed Distribution

Hoag Hospital is currently licensed for 498 beds, 419 of which are currently staffed and operating. The following table shows the existing distribution of licensed and staffed beds by bed category and the proposed distribution of licensed and staffed beds following the completion of a component of the West Building Renovation and the Heart and Vascular Institute projects (“Post Project”). See also “The Project” below.

	<u>Licensed Beds</u>		<u>Staffed Beds</u>	
	<u>Current</u>	<u>Post Project</u>	<u>Current</u>	<u>Post Project</u>
Medical/Surgical	320	309	274	288
Intensive Care	57	75	31	75
Maternity/LDR	70	70	74	74
Intensive Care	21	21	21	21
Nursery				
Pediatrics	9	0	0	0
Chemical	<u>21</u>	<u>21</u>	<u>19</u>	<u>19</u>
Dependency				
Total	498	496	419	477

MEDICAL STAFF

The Board of Directors of the Corporation requires an organized medical staff to have a critical role in the process of providing oversight of quality care, treatment and services delivered by the physicians, dentists, oral surgeons, and podiatrists who are credentialed and privileged to utilize the Hospital's services and facilities and participate in the medical activities of the Hospital on a regular basis.

As of February 29, 2008, the Hospital's Medical Staff was comprised of 1,125 physicians, dentists, oral surgeons and podiatrists. The average age of the medical staff is approximately 48.9 years. For the six months ended February 29, 2008, the top 20 attending physicians, whose average age was 39.8 years, accounted for approximately 32.1% of the Hospital's inpatient admissions, excluding newborns as separate admissions.

The following chart includes all physicians on the Hospital's Medical Staff as of February 29, 2008:

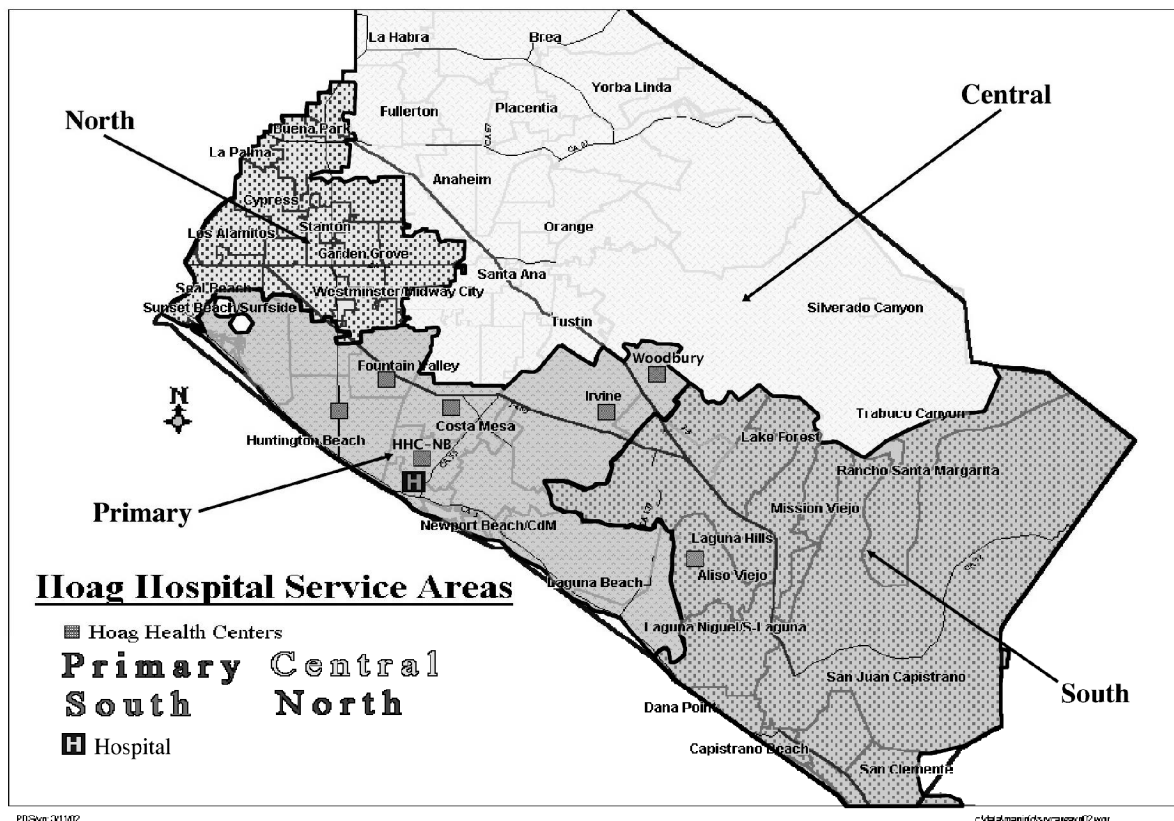
<u>Specialty</u>	<u>Number of Physicians</u>
Allergy & Immunology	10
Anesthesia	49
Cardiology	54
Cardiovascular Surgery	3
Colon-Rectal Surgery	4
Critical Care	18
Dental/Oral Surgery	26
Dermatology	36
Emergency Medicine	19
Endocrinology	10
Family Medicine	117
Gastroenterology	26
General Internists	129
General Surgery	30
Infectious Diseases	13
Nephrology	15
Neurologists	17
Neurosurgeons	14
Obstetrics/Gynecology	78
Oncology	29
Ophthalmology	55
Orthopedic Surgery	34
Otolaryngology	26
Pathology	8
Pediatrics	71
Pediatric Surgery	6
Perinatology & Neonatology	21
Physical Medicine/Rehab	10
Plastic Surgery	71
Podiatry	13
Psychiatry	13
Pulmonologists	26
Radiology & Radiation Oncology	37
Rheumatologists	7
Thoracic Surgery	6
Urology	15
Vascular Surgery	9
TOTAL	1,125

Source: Corporation

SERVICE AREA AND COMPETITION

Service Area

The Hospital is located in Newport Beach, California, approximately 50 miles south of Los Angeles and 90 miles north of San Diego, on the coast of the Pacific Ocean. The Corporation defines the Hospital's service area by patient origin, geographic accessibility to the Hospital and location of a majority of the physician offices of its Medical Staff. The Hospital's Primary Service Area includes Newport Beach/Corona Del Mar, Costa Mesa, Huntington Beach, Irvine, Fountain Valley and Laguna Beach. The Hospital's patient discharges from its Primary Service Area averaged 66% of its inpatient discharges for the fiscal years ending August 31, 2006 and 2007.



Primary Service Area includes Newport Beach/Corona Del Mar, Costa Mesa, Huntington Beach, Irvine, Fountain Valley, and Laguna Beach.

South Service Area includes Aliso Viejo, Capistrano Beach, Dana Point, Foothill Ranch, Ladera Ranch, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano, and Trabuco Canyon.

North Service Area includes Buena Park, Cypress, Garden Grove, La Palma, Los Alamitos, Westminster, Seal Beach, and Stanton.

Central Service Area includes Anaheim, Brea, Fullerton, La Habra, Orange, Santa Ana, Tustin, and Yorba Linda

Market Share and Competition

The following illustrates market share data for some of the general acute care providers of service for the Hospital's Primary Service Area for the calendar years 2004, 2005 and 2006. This data is based solely upon discharges from the Hospital's Primary Service Area which are determined by zip code. The 2006 data is the most recent data available. The Hospital's market share has remained the highest in the service area over the three years shown.

Hospital	2004	2005	2006
Hoag Memorial Hospital Presbyterian	32.5%	33.0%	34.9%
Orange Coast Memorial Medical Center ^[2]	8.2	8.7	8.8
Fountain Valley Regional Hospital & Medical Center ^[1]	9.5	9.5	8.6
Irvine Regional Hospital ^[1]	7.7	7.2	7.2
Huntington Beach Hospital & Medical Center ^[3]	4.6	4.5	4.5
St. Joseph Hospital- Orange ^[4]	4.0	4.1	3.9
University of California — Irvine Medical Center ^[5]	4.1	3.9	3.6
Kaiser Anaheim ^[6]	2.4	2.5	2.6
Saddleback Memorial Medical Center ^[2]	2.2	2.3	2.2
South Coast Medical Center ^[8]	2.4	2.2	2.1
Western Medical Center — Santa Ana ^[7]	2.1	2.1	2.1
Coastal Communities Hospital ^[7]	1.5	1.4	1.2
Mission Hospital Regional Medical Center ^[4]	1.4	1.4	1.6

Source for Market Share Information: Office of Statewide Health Planning and Development, State of California. Excludes discharges with DRG=391 (normal newborn).

The following footnotes each indicate the name of the system or organization that owns or operates the referenced facility:

- ^[1] Tenet Healthcare Corporation
- ^[2] Memorial Care
- ^[3] Prime Healthcare Services, Inc.
- ^[4] St. Joseph Health System
- ^[5] University of California
- ^[6] Kaiser Foundation Hospitals
- ^[7] Integrated Healthcare Holdings Inc.
- ^[8] Adventist Healthcare

Demographics

The following table presents an estimate of population growth in Orange County. The Hospital's Primary Service Area is estimated to experience an approximately 8.5% increase in population through 2012. The Corporation provides no assurance regarding the accuracy of such estimates.

Orange County Area	2007	2012	% Change
Primary Service Area	676,557	734,346	8.5%
North	493,048	508,658	3.2
Central	1,367,976	1,424,575	4.1
South	<u>572,908</u>	<u>620,545</u>	<u>8.3</u>
Total Orange County	3,058,315*	3,234,405*	5.8%

* Source: Medstat Market Expert using information provided by Claritas.

The table below summarizes average income per household for the calendar year 2007 for the City of Newport Beach and each of the Hospital's Service Areas (as referenced below and defined above). The Corporation provides no assurance regarding the accuracy of the household and average income numbers below.

Newport Beach ^[1]

Number of Households	37,919
% Household Income > \$75K	62.2%
% Household Income > \$100K	50.0%

Primary Service Area

Number of Households	255,256
% Household Income > \$75K	52.7%
% Household Income > \$100K	38.0%

South Service Area

Number of Households	208,125
% Household Income > \$75K	56.3%
% Household Income > \$100K	41.1%

North Service Area

Number of Households	149,479
% Household Income > \$75K	37.0%
% Household Income > \$100K	22.9%

Central Service Area

Number of Households	391,024
% Household Income > \$75K	38.8%
% Household Income > \$100K	25.0%

^[1] The Hospital is located in Newport Beach. Data includes Newport Beach, Newport Coast & Coronado Del Mar.

Source: Medstat Market Expert using information provided by Claritas.

FACILITIES DESIGN AND CONSTRUCTION

The Capital Plan

The Corporation's Board of Directors developed a Master Plan of Development (the "Master Plan") for the Hospital in the early 1990's. The Master Plan was designed to meet the Corporation's mission and strategy to serve its community and includes a comprehensive capital improvement program which has been revised over time as various elements have been constructed. Implementation of the Master Plan's capital improvements set forth below also will result in the Hospital complying with the State of California's seismic requirements (discussed below).

The Corporation maintains a comprehensive capital plan (the "Capital Plan") of which the Master Plan is a significant component. "The Project," described below, consists of elements of the Capital Plan which will be financed in part with currently unspent proceeds of the 2007 Bonds, which in turn are being refinanced with a portion of the proceeds of the 2008 Bonds.

The Capital Plan projected through 2018 includes approximately \$809 million of future capital expenditures. As of April 30, 2008, approximately \$121 million of remaining proceeds of the 2007 Bonds will finance Project expenditures related to the primary Hospital campus expected to be incurred in the upcoming 36 months. The major elements of the Project are described below. The Corporation expects that proceeds of the 2007 Bonds will be used for Project elements (as described in greater detail below) based on specific timing of such elements. Precise expenditure decisions will be dictated by eligibility for financing under the Loan Agreement, applicable federal tax restrictions, project timing and entitlement, among other factors. Total Project and other

Capital Plan requirements far exceed the available proceeds of the 2008 Bonds; the Corporation expects to pay for the remaining Project expenses from existing and future operating revenues, investment income, investment reserves and from future charitable contributions. As of February 29, 2008, the Corporation and NHC had approximately \$1,013 million of unrestricted cash and investments. See “SELECTED UTILIZATION AND FINANCIAL INFORMATION” below.

The Project

Major elements of the Project include:

(1) *Ancillary Building Renovation and Structural Upgrade.* The Ancillary Building which currently houses the Emergency Department (“ED”), portions of Radiology Services and other ancillary services, is being renovated to accommodate the expansion of the ED and the improvement and consolidation of inpatient imaging services. In addition, the Ancillary Building will be structurally upgraded in order to meet California Senate Bill 1953 seismic requirements (“SB 1953”). Upon completion of this element of the Project, the number of ED beds will increase from 30 to 56. The total estimated cost of this element of the Project is approximately \$71 million, of which approximately \$12 million had been spent as of February 28, 2009.

(2) *West Building Renovation.* In conjunction with required seismic upgrades, the aging infrastructure of the West Building is being upgraded or replaced to meet the Hospital’s anticipated needs. In addition, the finishes on each of the floors are being modernized and infrastructure for new technologies is being put in place. The renovation of the tenth through fourth floors has been completed. Renovation of the third floor is currently underway. The estimated total remaining cost of the West Building renovation is approximately \$52 million and includes the installation of base isolators to complete the structural upgrade in order to meet SB 1953 standards.

(3) *Lower Campus Outpatient Services.* Beginning in 2007, certain expanded outpatient services facilities and related parking are being incorporated with the existing Cancer Center on the lower portion of the Hospital’s campus. When completed, these facilities will expand outpatient cancer treatment capabilities as well as provide needed space for growing neurosciences and related imaging services. By late 2008/early 2009, these new facilities will accommodate the expansion of the outpatient cancer and neurosciences programs and will allow a significant part of the Hospital’s outpatient imaging, chemotherapy, Gamma Knife, other radiation oncology and additional outpatient treatment services to be consolidated on the lower campus. This element of the Project entailed excavation and construction of a retaining wall to facilitate the construction of the planned facilities and related parking. The total estimated cost of this facility expansion, excluding the cost of the retaining wall, is approximately \$79 million.

(4) *Seismic Upgrades.* SB 1953 requires all acute care hospitals to be upgraded to new seismic standards by the following deadlines: by 2008, all general acute-care inpatient buildings at risk of collapsing during a strong earthquake must be rebuilt, retrofitted or closed; and by 2030, all acute care hospital buildings in the State must be operational following a major earthquake. The Sue and Bill Gross Women’s Pavilion is compliant with seismic standards of inpatient care and meets the requirements of SB 1953. However, some of the other buildings are currently not compliant. In conjunction with the infrastructure replacements and upgrades, these buildings will be retrofitted to meet most of the new seismic standards. The Corporation has received approval for a five-year extension of SB 1953 compliance to 2013. Estimated cost of seismic upgrades or retrofits are included in specific Project element cost estimates.

(5) *Heart and Vascular Institute.* In 2008, subject to availability of City approvals, design is expected to begin on a building on the upper portion of the primary Hospital campus to house predominantly inpatient services associated with the Hoag Heart and Vascular Institute. The new building will provide space for extensive cardiovascular program enhancements including dedicated cardiovascular operating rooms, expanded cath labs and endovascular suites. The facility will also provide much needed expansion in surgical intensive care beds, resulting in a net gain of 18 intensive care beds. The total estimated cost of this element of the Project, including plans to expand the power plant and emergency generator capacity related to the new facility, is approximately \$273 million in its most current configuration. See “Project Approvals” below.

(6) *Routine Capital Improvement Expenditures.* A portion of the routine capital expenditures of the Corporation during the fiscal years ending August 31, 2008, 2009, and 2010 is expected to be funded from unspent proceeds of the 2007 Bonds, which have been refinanced with a portion of the proceeds of the 2008 Bonds. The estimated cost of these routine capital expenditures in total is approximately \$45 million.

(7) *Information Technology.* The Hospital plans to acquire and/or replace certain information systems, including software and hardware. Some of the key efforts include acquisition of electronic chart and physician documentation, enterprise patient scheduling system, physician electronic medical record connectivity and infrastructure, server/network/storage upgrades, telecommunications upgrades, infrastructure upgrades and redundancy system, and radiology system replacement. The Hospital continues to invest in state-of-the-art information technology solutions. The estimated cost of these information technology expenditures for the fiscal years ending August 31, 2008, 2009 and 2010 in total is approximately \$106 million.

The artist rendering below, which is not to scale, depicts the current and planned transformation of the Hospital campus over the next several years in accordance with the Master Plan.

Hoag Memorial Hospital Presbyterian *(As of Spring 2008)*

LEGEND

1. North Parking Structure
2. James Irvine Outpatient Surgery Center
3. Power Plant
4. Ancillary Building
5. West Building
6. North Building
7. Chemical Dependency Center
8. Women's Pavilion
9. Original 1952 Building/Site of Future Heart & Vascular Institute
10. South Parking Structure
11. Cancer Center
12. Conference Center Parking Structure
13. Conference Center and Neurosciences Building
14. Future Advanced Technology Pavilion
15. Co-Gen Plant
16. Childcare Center
17. Surface Parking
18. Hoag Health Center



Project Approvals. Pursuant to a Development Agreement between the Corporation and the City, adopted in 1994, the Corporation has a vested right to develop the Hospital site in accordance with its Master Plan, approved by the City in 1992, subject to compliance with the Development Agreement, supplemental requirements of the California Environmental Quality Act ("CEQA") and certain other conditions, including preparation of certain traffic report studies for consideration by the City. The Development Agreement imposes limits on the allowable development on the upper and lower portions of the campus.

The Corporation has been processing with the City an amendment to the Development Agreement (the "Amendment") which, among other things, would allow a transfer of 225,000 square feet of building from that allowed on the lower campus to the upper campus. If ultimately approved, the Corporation expects the Master Plan to be implemented within the constraints of the Development Agreement as so amended. In particular, the

Corporation's preferred design and location of the Heart and Vascular Institute is affected by the effectiveness of the Amendment. If the Corporation does not receive this proposed modification to its land use entitlement with the City, the Heart and Vascular Institute and other Project elements will be redesigned and development is expected to occur within the existing entitlement applicable at the time.

In 2007, the City engaged an environmental consultant to prepare an environmental impact report related to the Amendment. Following a series of public hearings, on April 16, 2008, the City Council unanimously approved the environmental impact report related to the Amendment, subject to a series of conditions and mitigation factors. The City Council adopted an ordinance approving the Amendment on May 13, 2008.

Approved mitigation factors and conditions of approval of the Amendment include payment to the City of a Development Agreement Fee, construction of sound attenuation walls, improvements to the cogeneration facility, ongoing traffic and noise mitigation studies, monitoring and review and other conditions. The Corporation believes it will be able to comply with the conditions of approval as currently formulated, as conditions of future development pursuant to the Amendment.

The ordinance approving the Amendment is subject to referendum during the 30 days following its adoption and prior to its becoming effective, and the environmental impact report may be subject to legal challenge as well. At the public hearings, some community opposition to the Amendment was expressed, citing environmental considerations related to existing Corporation activities. The Corporation cannot predict whether there will be challenges to the environmental impact report or the Amendment, but if challenge is brought, and depending on its form, the Amendment could be delayed or its terms altered.

In any case, the Project will be developed in compliance with the Development Agreement and the Master Plan. However, building permits are required prior to construction. In addition, OSHPD approval is required for the design of new inpatient and certain other facilities. The Amendment and construction of buildings on the lower campus are subject to review by the California Coastal Commission. Moreover, significant elements of the Project will need to be licensed by the State Health Department upon completion. Although the Corporation expects to receive all required land use approvals on a timely basis to allow completion of Project elements, there can be no assurance that the required approvals will be obtained in a timely manner or at all.

Cost Estimates. Construction of portions of the Capital Plan and Project is expected to occur over a 10-year period. In addition to proceeds of 2007 Bonds and earnings thereon, the Corporation expects to fund certain Project costs through charitable contributions. Through the Foundation's Renaissance Hoag campaign, the Corporation has begun the fundraising effort associated with the Capital Plan. The Foundation has established a 10-year strategic plan (the "Strategic Plan") which includes a number of campaign initiatives to support the Corporation's capital projects and program development, as well as endowment growth. Key initiatives focus on raising funds for the Heart and Vascular Institute, the Cancer Center, Neurosciences, Women's Services and Nursing. The Strategic Plan is consistent with and supports the Corporation's Capital Plan. The Corporation expects to receive as much as \$315 million in charitable contributions, a portion of which may be applied to the cost of the Project. Through April 2008, the Foundation has raised approximately \$80 million in the first two years of the Renaissance Hoag campaign. Although the Foundation has a history of successful fundraising, there can be no assurance such efforts will raise the estimated funds. The remainder of the Project costs are expected to be funded from cash flow from operations and investment income during the course of construction and from existing resources. The estimated contribution from cash flow has been derived from certain plans prepared by the Corporation's finance staff. In the event such sources are inadequate, the Corporation would expect to fund costs from existing reserves, or to modify elements of the Project, if feasible.

At times in the past, the Corporation's estimates of Capital Plan and Project costs have increased significantly in response to rapid increases in the cost of new materials and other construction costs. This, in turn, has necessitated reassessment of Capital Plan and Project elements, timing and scope. The Corporation cannot predict whether such conditions will continue, but the Corporation expects to revise its Capital Plan and Project elements from time to time as needed in response to changes in cost estimates, as well as changes in Corporation needs, goals, finances and other factors. Both the size of the Capital Plan and the concentrated time period during which it is expected to occur increase the risk that escalating costs may necessitate revisions in the scope and timing of elements of the Capital Plan. Such revisions could impact the Corporation's business plan and future results of

operation. For a further discussion of certain risks relating to cost overruns on the Project, please refer to the section of this Official Statement entitled BONDHOLDERS' RISKS — Other Risk Factors — “Contributions” and “Construction Risks.”

The Corporation has estimated the costs of the improvements to be financed with bond proceeds and other Project elements based on architects' and engineers' estimates. It is expected that the work for that portion of improvements to be constructed in and around the existing Hospital activities will be conducted in a manner to minimize disruption to Hospital services. While this effort is expected to be successful, it will involve significant increased cost and occasional disruption to construction work. The degree of this disruption is hard to predict, and may cause costs to exceed the estimates shown.

The Corporation has not let contracts for a significant portion of the Project, including some elements expected to be funded with unspent proceeds of the 2007 Bonds. Therefore, the Corporation's estimates are imprecise. In addition, the scope of some Project components is subject to periodic internal review and revision which may cause estimates to increase. Especially in light of the substantial rehabilitation work to be conducted, it is possible the Corporation will experience significant cost overruns with respect to part or all of the Project, and such overruns could be in amounts which would in the aggregate be material to the Corporation's operating results. While contingencies have been included in all Corporation cost estimates set forth here, it is possible that the scope of some Project elements may need to be reduced if actual costs exceed estimates.

SELECTED UTILIZATION AND FINANCIAL INFORMATION

Sources of Patient Services Revenue

The Corporation receives payment for its services from several sources with a variety of payment arrangements. Insurance payments include preferred provider organizations (PPOs) and health maintenance organizations (HMOs). The federal government, through the Medicare program, pays for most services for persons over 65 years old and the State of California pays for indigent patients through the Medi-Cal program. Orange County also funds certain indigent patients through the Medical Services for the Indigent (MSI) program and other patients through the Cal-Optima program. The following table shows the Corporation's distribution of gross patient revenue by payor for the past three fiscal years.

	<u>Fiscal Year Ended August 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Medicare	35.4%	34.8%	34.5%
PPO	27.9	27.5	26.7
HMO ⁽¹⁾	29.3	29.7	30.9
Medi-Cal & MSI	4.0	3.9	3.9
Other	3.4	4.1	4.0

⁽¹⁾ Includes capitated commercial and Medicare contracts.

For a further discussion of Medicare, Medi-Cal and other payors, please refer to the section of this Official Statement entitled “BONDHOLDERS' RISKS.”

Historical Utilization

The Corporation's utilization statistics for the past three fiscal years are presented below.

	<u>Fiscal Year Ended August 31,</u>		
	2005	2006	2007
Licensed Beds – acute care	511	511	498
Inpatient Statistics			
Staffed Beds – acute care	354	417	419
Admissions – acute care	25,267	26,704	27,909
Average Length of Stay (days)	4.17	4.23	4.11
Patient Days – acute care	105,133	112,885	114,741
Births	4,602	4,993	5,240
Percent Occupancy (staffed bed)	81.4%	74.2%	75.0%
Average Daily Census – acute	288	309	314
Case Mix Index – All	1.37	1.38	1.35
Case Mix Index – Medicare	1.67	1.71	1.64
Outpatient Statistics			
Emergency Visits	58,276	62,089	64,844
Outpatient Visits	231,690	248,675	260,924
Outpatient Surgeries	<u>10,314</u>	<u>10,653</u>	<u>11,442</u>
Total Outpatient Volume	<u>300,280</u>	<u>321,417</u>	<u>337,210</u>

Summary of Financial Information

The following statement of operations and balance sheet of the Obligated Group for the fiscal year ended August 31, 2007, is derived by management from the consolidating statements of operations and balance sheets to the consolidated financial statements of the Corporation and Affiliates, which is included with the unaudited “Other Financial Information” following the audited consolidated financial statements in APPENDIX B-1 (the “Audited Financial Statements”). For purposes of analysis by the Corporation's management, the financial information of the Obligated Group is consolidated and presented in the column named “Hospital and NHC” in the consolidating statements of operations and balance sheets to the Annual Financial Statements.

The summary of financial information should be read in conjunction with the consolidated financial statements and related notes contained in APPENDIX B-1 and APPENDIX B-2.

The following chart illustrates the components of the “Hospital and NHC” column of the Other Financial Information that accompanies the Audited Financial Statements as of and for the year ended August 31, 2007, as well as the unaudited financial information of the Obligated Group as of and for the year ended August 31, 2006:

	Percentages of Obligated Group					
	As of and for the year ended August 31, 2007			As of and for the year ended August 31, 2006		
	Corporation	NHC	Obligated Group	Corporation	NHC	Obligated Group
Income from Operations	103%	-3%	100%	100%	0%	100%
Excess of Revenue over Expenses	101%	-1%	100%	99%	1%	100%
Total Assets	95%	5%	100%	95%	5%	100%
Total Net Assets	93%	7%	100%	92%	8%	100%

The financial information for the six months ended February 29, 2008 and February 28, 2007, is derived by management from the internal unaudited financial statements of the Obligated Group. The unaudited financial data for the six months ended February 29, 2008 and February 28, 2007, includes all adjustments which the

Corporation's management considers necessary to fairly present such information in accordance with accounting principles generally accepted in the United States. Operating results for the six months ended February 29, 2008, are not necessarily indicative of the results which may be expected for the entire fiscal year ending August 31, 2008.

The following charts illustrate certain components of the unaudited financial statements of the Obligated Group as of and for the six-month periods ended February 29, 2008 and February 28, 2007:

	Percentages of Obligated Group					
	As of and for the six-month period ended February 29, 2008			As of and for the six-month period ended February 28, 2007		
	Corporation	NHC	Obligated Group	Corporation	NHC	Obligated Group
Income from Operations	102%	-2%	100%	104%	-4%	100%
Excess of Revenue over Expenses	101%	-1%	100%	101%	-1%	100%
Total Assets	94%	6%	100%	95%	5%	100%
Total Net Assets	91%	9%	100%	92%	8%	100%

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Statements of Operations of the Obligated Group
Condensed and Consolidated
(Dollars in Thousands)

	Fiscal Years Ended August 31,		Six Months Ended	
	2006	2007	February 28, 2007	February 29, 2008
			<i>Unaudited</i>	<i>Unaudited</i>
Net Patient Service Revenue	\$474,169	\$508,475	\$245,550	\$276,240
Revenue Earned on Prepaid Contracts	70,960	80,267	38,584	35,772
Other Operating Revenue	<u>32,660</u>	<u>39,534</u>	<u>18,852</u>	<u>13,741</u>
TOTAL OPERATING REVENUE	577,789	628,276	302,986	325,753
Operating Expenses:				
Salaries & Benefits	266,845	286,129	139,043	141,793
Supplies	99,937	104,037	49,749	54,982
Purchased Services	68,936	71,498	33,962	34,423
Professional Fees	7,721	8,075	4,133	4,253
Depreciation and Amortization	39,692	40,542	19,983	21,645
Provision for Doubtful Accounts	21,159	18,546	10,219	11,150
Interest	17,651	24,317	9,235	13,231
Other	<u>39,206</u>	<u>40,072</u>	<u>20,641</u>	<u>23,175</u>
TOTAL OPERATING EXPENSES	561,147	593,216	286,965	304,652
INCOME FROM OPERATIONS	16,642	35,060	16,021	21,101
Nonoperating Revenues/Expenses:				
Investment Income, Net	56,292	95,027	54,891	6,367
Other	<u>(1,693)</u>	<u>(7,174)</u>	<u>(200)</u>	<u>1,072</u>
TOTAL NONOPERATING REVENUES/EXPENSES	54,599	87,853	54,691	7,439
EXCESS OF REVENUE OVER EXPENSES	71,241	122,913	70,712	28,540
Transfers from (to) Foundation, restricted contributions and other changes in net assets	<u>15,156</u>	<u>5,601</u>	<u>(910)</u>	<u>5,878</u>
INCREASE IN NET ASSETS	86,397	128,514	69,802	34,418
NET ASSETS, BEGINNING OF THE PERIOD	<u>1,003,343</u>	<u>1,089,740</u>	<u>1,089,740</u>	<u>1,218,254</u>
NET ASSETS, END OF THE PERIOD	<u>\$1,089,740</u>	<u>\$1,218,254</u>	<u>1,159,542</u>	<u>\$1,252,672</u>

Balance Sheet of the Obligated Group

**Condensed and Consolidated
(Dollars in Thousands)**

	August 31,		February 29,
	2006	2007	2008
			<u>Unaudited</u>
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$36,415	\$78,801	\$16,626
Patient accounts receivable, net of allowance for doubtful accounts	59,903	63,056	74,599
Investments	5,099	5,378	5,276
Other Current Assets	16,249	16,517	17,186
Due From Related Parties	2,242	1,932	2,306
TOTAL CURRENT ASSETS:	119,908	165,684	115,993
ASSETS LIMITED AS TO USE:			
Board designated for Capital Improvements	864,701	937,885	991,344
Under indenture agreement held by trustee	50,806	131,485	130,964
Under malpractice claims funding arrangement held by trustee	17,496	18,830	14,800
TOTAL ASSETS LIMITED AS TO USE	933,003	1,088,200	1,137,108
PROPERTY AND EQUIPMENT, NET	629,615	651,625	683,290
OTHER ASSETS	23,918	30,616	40,873
TOTAL ASSETS	\$1,706,444	\$1,936,125	\$1,977,264
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Account payable	\$23,146	\$23,562	\$17,138
Accrued expenses	47,839	44,986	45,341
Accrued liabilities under capitated contracts	12,861	11,119	10,436
Estimated third-party payor settlements	1,485	918	688
Due to Related Parties	255	238	223
TOTAL CURRENT LIABILITIES:	85,586	80,823	73,826
NONCURRENT LIABILITIES:			
Estimated malpractice claims	12,200	11,269	12,024
Bonds payable	516,000	622,950	622,950
Other long-term liabilities	2,918	2,829	15,792
TOTAL NONCURRENT LIABILITIES	531,118	637,048	650,766
TOTAL LIABILITIES	616,704	717,871	724,592
TOTAL NET ASSETS	1,089,740	1,218,254	1,252,672
TOTAL LIABILITIES & NET ASSETS	\$1,706,444	\$1,936,125	\$1,977,264

Management's Discussion and Analysis of Financial Information

For the fiscal year ended August 31, 2007, the Corporation reported Net Patient Service Revenue totaling approximately \$508 million in comparison to \$474 million for the year prior. The approximate \$34 million, or 7.2% increase, is due primarily to growth both in inpatient and outpatient services. Inpatient volume, as measured by admissions, grew 4.5% over the prior year. Similar growth was experienced in the outpatient setting with total outpatient visits for the year at 337,210, a 4.9% increase over the prior year. The Emergency Department experienced moderate growth of 4% while outpatient surgeries grew 7% over the prior year. Referred outpatients, which include services such as imaging and lab, grew solidly at 5% during the year. For the interim six-month periods ended February 29, 2008 and February 28, 2007, Net Patient Service Revenue totaled approximately \$276 and \$246 million, respectively. The year-over-year growth of approximately 12.2% is the result of increased admissions of 1.8%, outpatient visits of 7.9% and strong price gains with contracted health insurance companies. Slightly over 1% of the year-over-year increase is directly attributed to the Corporation's termination of one capitated contract effective December 31, 2007, discussed further below.

For the fiscal year ended August 31, 2007, the Corporation reported Revenue Earned on Prepaid Contracts of approximately \$80 million in comparison to \$71 million for the year prior. Revenue Earned on Prepaid Contracts consists of revenue earned by the Corporation through capitated payment arrangements with payors. For the interim six-month periods ended February 29, 2008 and February 28, 2007, Revenue Earned on Prepaid Contracts totaled approximately \$36 and \$39 million, respectively. The Corporation converted one such prepaid contract to discounted fee-for-service effective January 1, 2008. While capitated contracts remain an active payor category, the Corporation does not expect to grow this business. As of the fiscal year ended August 31, 2007, the Corporation had approximately 56,300 equivalent lives covered under prepaid contracts. As of February 29, 2008, equivalent covered lives under prepaid contracts was approximately 35,700.

The Corporation's inpatient activity remains strong as evident in the continued high occupancy rates of 81%, 74% and 75% for 2005, 2006, and 2007, respectively, with the decline in 2006 a result of increased capacity associated with the Women's Pavilion. Results for the fiscal year ended August 31, 2007 benefited from strength in outpatient surgeries volume which grew 7% over the prior year. Successful outreach strategies and investment in key outpatient technologies and programs have contributed to this continued growth.

Other Operating Revenue of the Obligated Group was \$40 million in the fiscal year ended August 31, 2007, as compared to \$33 million for 2006, and is comprised mainly of certain management agreements between the Corporation, its wholly-owned subsidiaries and physician-related entities as part of the Corporation's physician integration strategies. For the six months ended February 29, 2008 and February 28, 2007, Other Operating Revenue totaled \$14 and \$19 million, respectively. The decline in 2008 is the result of the termination of a management agreement with physician-related entities effective December 31, 2007.

Salaries and benefits for the fiscal year ended August 31, 2007 totaled \$286 million, a 7% increase over 2006 at \$267 million. The increase in salaries and benefits is largely attributable to increased volume. The Corporation continues to manage outside registry and traveler costs to less than 2% of labor. Despite the significant labor shortages in California, the Corporation's annual overall turnover rate remains below 20% with nursing at approximately 15% for the twelve-month period ending February 29, 2008. For the six months ended February 29, 2008 and February 28, 2007, salaries and benefits totaled approximately \$142 and \$139 million, respectively. The Corporation staffs to the current State-mandated nurse-staffing ratios.

Supplies expense for the fiscal year ended August 31, 2007 totaled approximately \$104 million. This represents an approximate 4% increase over the 2006 total of \$100 million, which is due largely to volume. For the six months ended February 29, 2008 and February 28, 2007, supplies expense totaled approximately \$55 and \$50 million, respectively.

Purchased Services for the fiscal year ended August 31, 2007 totaled approximately \$71 million as compared to \$69 million for the year prior. Purchased services include such items as medical services, repairs and maintenance, IT-related maintenance fees and marketing. For the six months ended February 29, 2008 and February 28, 2007, purchased services totaled approximately \$34 million.

Professional fees represent the Corporation's investment in certain physician coverage programs and medical directorships. Examples of coverage programs include contract physician hospitalists and intensivists, as well as obstetrics night call coverage, to provide needed patient care. For the fiscal years ended August 31, 2006 and 2007, the Corporation reported professional fees of \$8 million. For the six months ended February 29, 2008 and February 28, 2007, professional fees totaled approximately \$4 million.

For the fiscal years ended August 31, 2007 and 2006 depreciation and amortization expense totaled approximately \$40 million. For the six months ended February 29, 2008 and February 28, 2007, depreciation and amortization expense totaled approximately \$22 and \$20 million, respectively.

Provisions for doubtful accounts totaled \$19 million for the fiscal year ended August 31, 2007, as compared to \$21 million for the prior year. Included in the prior fiscal year amounts are amounts attributable to adverse development on prior reserves. For the six months ended February 29, 2008 and February 28, 2007, provisions for doubtful accounts totaled approximately \$11 and \$10 million, respectively.

Interest expense totaled approximately \$24 million for the fiscal year ended August 31, 2007, as compared to \$18 million for the year prior. The increase in the interest expense was primarily due to a higher interest rate environment and the issuance of \$423 million auction rate long-term debt in May 2007. The Corporation used approximately \$30 million of its own equity and approximately \$286 million of the proceeds from the sale of the 2007 Bonds in order to refund its Series 1992, 1996 and 1999 Bonds. During the refunding escrow period of 89 days, the Corporation paid interest on both the old debt of \$316 million and the new debt of \$423 million. In addition, interest expense includes the Corporation's auction rate securities (\$200 million) issued in August 2005. For the six-month period ended February 29, 2008, the Corporation incurred \$13 million of interest expense, as compared to \$9 million for the same prior-year period.

As a result of recent disruptions in the auction rate securities markets, the Corporation experienced significant increases in the interest rates borne by its auction rate securities. During the period beginning on January 1, 2008 and ending on February 29, 2008, the reset rates at auction have ranged from 2.97% to 9.84%. While the Corporation has not experienced any failed auctions, there is no guaranty that such failed auction will not occur in the future. In addition, the Corporation expects actual interest rates during the remaining six months of the fiscal year ending August 31, 2008 may continue to exceed historical rates of interest and such higher interest rates may be significantly greater than those experienced through February 29, 2008. The Corporation's interest expense also includes net payments made by the Corporation under interest rate swap agreements, which were executed in April 2007 with an effective date of May 31, 2007. The aggregate notional amount for these swap transactions is \$250 million. Under these swap agreements, the Corporation pays a fixed rate of 3.229% and receives 55.7% of 1-month LIBOR plus a spread of 0.23%. The floating rate payments received by the Corporation, which are intended to offset interest rate payments on a portion of the Corporation's auction rate securities, have decreased as a result of a fall in short-term interest rates, such as 1-month LIBOR. As of February 29, 2008, 1-month LIBOR was 3.11%. See also "Certain Indebtedness and Liabilities."

Total other operating expenses, including utilities, rent, insurance and other expenses totaled \$40 and \$39 million for the years ended August 31, 2007 and 2006. For the six months ended February 29, 2008 and February 28, 2007, other operating expenses totaled approximately \$23 and \$21 million, respectively.

During 2007, the Corporation redesignated its investment portfolio, previously classified as "other-than-trading," to "trading" in accordance with the AICPA Audit and Accounting Guide, Health Care Organizations (the "Guide"). The Guide requires that the changes in unrealized gains and losses on marketable securities designated as "trading" be reported within the excess of revenue over expenses. Accordingly, prior year investment income has been reclassified to include changes in unrealized gains and losses for the periods reported. Investment income for the fiscal year ended August 31, 2007 totaled \$95 million in comparison to \$56 million for the year prior. Investment income reported in the Summary of Revenue and Expenses represented the net result of realized and unrealized gains and losses on investment activity, as well as dividend and interest income. The fluctuation in periods is due to changes in market conditions. The Corporation yielded gross investment return on Board-Designated investment reserves of approximately 10% for the twelve-month period ended August 31, 2007. There is no guaranty the Corporation will achieve similar results in the future.

Significant disruptions in the global credit markets throughout 2007 continue to have broad and sweeping effects on companies across all industry sectors. These disruptions began to surface in the subprime mortgage sector but have spread to and adversely affected a broader group of market participants. The current conditions in the credit markets have made determination of fair value for many types of investments significantly more complex. In addition, certain investments have become less liquid as a result of the market credit crunch. Certain of the Corporation's alternative investments have allocations to underlying funds which invest in subprime or structured credit product strategies. Please see "Liquidity and Investment Policy" for a more detailed discussion. Investment income of the Obligated Group for the six-month period ended February 29, 2008 totaled \$6 million in comparison to \$55 million for the same period during the year prior. Investment income also includes the ineffective portion of the change in the fair value of the interest rate swaps described above. The Corporation recognized a negative mark-to-market on these interest rate swaps in the amount of \$13 million as of February 29, 2008. For the six months ended February 29, 2008, the Corporation yielded a gross of fees return on Board-Designated investments of approximately 2%.

In the fiscal year ending August 31, 2008, the Corporation began and completed an asset allocation study for the Board-Designated investment portfolio (\$938 million as of August 31, 2007). The Corporation conducted an intensive study of its long-range financial plans and resulting investment and liquidity requirements. As a result, the Board-Designated portfolio was segregated into two pools: Short-Term Portfolio and Long-Term Portfolio. For each pool, the Corporation considered the operating characteristics, including time horizon, liquidity requirement, return expectations and risk tolerance, and based on the investment objectives for each pool, the Corporation updated its investment policy and asset allocations. The Short-Term Portfolio (approximately \$161 million as of February 29, 2008) is invested in fixed income securities of varying maturities, including longer-term assets. The allocation targets for the Long-Term Portfolio (approximately \$831 million) were established as follows: 25% fixed income, 40% public equity, 7% private equity, 3% real assets, and 25% hedge funds. These target allocations will be examined on an annual basis and adjusted, if necessary, based on the Corporation's long-range financial plans. Actual allocations may differ from target allocations in the short-term or during periods of significant market fluctuations and there can be no assurance that the Corporation will always rebalance its investment portfolios. See "Liquidity and Investment Policy" below.

Investment income has been a significant component of the Obligated Group's profitability and cash flows. For the six months ended February 29, 2008 and the prior two fiscal years, investment income represented approximately 10%, 51%, and 44% of net income before depreciation and interest ("EBDI"), respectively. **Achievement of investment income is subject to significant risks and the Corporation can give no assurance that its investments will generate any particular level of return. See "BONDHOLDERS' RISKS" in the forepart of this Official Statement and "Liquidity and Investment Policy" below. If the Corporation suffers investment losses, its business plans and financial results could be materially impacted.**

The Obligated Group's EBDI for fiscal years ended August 31, 2007 and 2006 was approximately \$188 and \$129 million, respectively, taking into account the \$16 million of investment income reclassification in 2006. The Obligated Group's EBDI for the six months ended February 29, 2008 and February 28, 2007 was approximately \$63 and \$100 million, respectively.

Overall, the Corporation's operations have remained financially strong. Top line revenue grew 8.7% in the fiscal year ended August 31, 2007 and 7.5% in the six-month period ended February 29, 2008 over same prior-year periods, while operating expenses have increased approximately 5.7% and 6.2% in the year and six-month periods. The Corporation continues to be successful in rate negotiations, implementing certain cost containment strategies, focusing on recruitment and retention and maintaining market share in its primary and secondary service areas. It is management's expectation that downward pressure from payors and employers on rate increases will strengthen in 2008. However, management expects to maintain overall positive operating margins and strong cash flow margins while continuing to invest in facilities, programs and technologies to maintain and then grow market share, particularly in support of the Corporation's Centers of Excellence.

For the fiscal year ended August 31, 2007, Newport Healthcare Center ("NHC") generated a loss of \$0.9 million due to the early termination of one lease and a delay in transitioning certain administrative and other services into leased space at the property. For the six-month period ended February 29, 2008, NHC generated a loss of \$0.3 million. As of February 29, 2008, approximately 70,000 of the 330,000 square feet were leased. The Other

Operating Revenues and Other Expenses of NHC are incorporated in the above discussions of individual line items of the Obligated Group's statement of operations.

Liquidity, Investment Policy and Investment Portfolios

At February 29, 2008, the Obligated Group had approximately \$1,013 million of unrestricted cash, cash equivalents and investments, including board designated funds and other investments. The following table sets forth the Obligated Group's unrestricted cash and investments for fiscal years ended August 31, 2006 and 2007 and the six months ended February 29, 2008. Cash and cash equivalents consist mainly of bank deposits and short-term investments in money market funds and commercial paper. In accordance with its updated investment and operating objectives for the Board-Designated investment reserves, in the 2008 fiscal year, the Corporation consolidated its portfolios previously designated as "Building Plan" and "Liquidity" portfolios and segregated its Board-Designated investments into two distinct portfolios: "Short-Term Portfolio" and "Long-Term Portfolio."

		Market Value (in 000's)					
		August 31, 2006		August 31, 2007		February 29, 2008	
Cash & Cash Equivalents		\$36,415	4.0%	\$ 78,801	7.7%	\$16,626	1.6%
Other Short-Term Investments^[1]		5,099	0.6%	5,378	0.5%	5,276	0.5%
Board-Designated Short-Term Portfolio							
Fixed Income Securities		146,999	16.2%	175,835	17.2%	160,747	15.9%
Board-Designated Long-Term Portfolio							
Fixed Income Securities		214,079		223,671		229,938	
U.S. Equity		140,112		139,944		112,282	
International Equity		0		0		101,532	
Global Equity		130,853		137,996		106,588	
Hedge Funds ^[2]		232,097		257,483		276,491	
Private Equity		561		2,956		3,766	
Total Long-Term Portfolio		717,702	79.2%	762,050	74.6%	830,597	82.0%
Total Cash & Investments^[3]		\$ 906,215	100.0%	\$ 1,022,064	100.0%	\$1,013,246	100.0%

^[1] Comprised of investments in debt and equity mutual funds.

^[2] The Hedge Funds allocation as of February 29, 2008, includes positions from two hedge fund-of-fund managers which the Corporation has terminated. On March 7, 2008, the Corporation received full redemption proceeds in the amount of approximately \$62.8 million from one of these managers. The Corporation transferred \$40 million of the redemption proceeds to its operating account which is invested in cash & cash equivalents, and the remaining funds in the amount of approximately \$22.8 million were transferred to the Board-Designated Short-Term Portfolio. The remaining positions associated with the liquidation of the second hedge fund-of-fund manager had an estimated value of approximately \$12.7 million as of February 29, 2008.

^[3] Total Cash & Investments does not include unspent bond proceeds and assets held by trustee under indenture agreement which totaled \$50.8 million and \$131.5 million as of August 31, 2006 and 2007, respectively. The total amount of unspent bond proceeds and assets held by the trustee under indentures was \$131 million as of February 29, 2008.

The Corporation's Board-Designated investments are invested pursuant to an investment policy, which has been approved by the Corporation's Board of Directors, and is designed to provide a framework within which to manage the assets. The Board has delegated the implementation of this policy to an Investment Management Committee ("IMC"), which consists of members of the Board and other appointed members. The IMC is authorized to take any and all actions consistent with the investment policy and may further delegate authority to act within the guidance provided by this policy to the Corporation's management. The IMC may also designate an investment advisor.

The overall investment objective, as delineated in the Corporation's investment policy, is to invest the Board-Designated investments in a manner that ensures sufficient resources will be available to meet the Corporation's immediate and long-term cash flow requirements, while preserving principal and maximizing returns, given appropriate risk constraints. The policy seeks to identify acceptable risk levels associated with reaching long-term rate of return objectives.

While the Corporation expects to maintain sufficient liquidity to meet its obligations, the occurrence of significant levels of required funding of the Purchase Price of 2008 Bonds tendered for purchase and not successfully remarketed, whether directly (with respect to the Series 2008A, 2008B and 2008C Bonds) or pursuant to the Reimbursement Agreement (with respect to the Series 2008D, 2008E and 2008F Bonds), could materially adversely affect the financial position of the Obligated Group. See "BONDHOLDERS' RISKS — Other Risk Factors — Risks Related to Outstanding Variable Rate Obligations."

In the 2008 fiscal year, the Corporation began and completed an asset allocation study for the Board-Designated investments which had a total market value of approximately \$937.9 million as of August 31, 2007. The Corporation conducted a study of its long-range financial plans and resulting investment and liquidity requirements. As a result, the Board-Designated portfolio was segregated into two pools: Short-Term Portfolio and Long-Term Portfolio. For each pool, the Corporation considered the operating characteristics, including time horizon, liquidity requirement, return expectations and risk tolerance, and based on the investment objectives for each pool, the Corporation updated its investment policy and asset allocations.

The Corporation's investments are currently managed by a number of professional investment managers under the supervision of the IMC of the Corporation's Board of Directors and the internal and external investment staff. The Corporation may hire new managers, expand the authority of or terminate existing ones subject to an approval process established by the IMC. Portfolio investments undergo significant turnover and are actively managed by the investment managers retained by the Corporation. Individual investment guidelines are established for separately managed accounts. The Corporation may also invest in commingled funds maintained by third parties. Investment guidelines for commingled funds should be consistent with the intent of the Corporation's investment policy, but need not comply with the policy in its entirety.

Short-Term Portfolio. The Short-Term Portfolio is dedicated to meeting the funding requirements of the Corporation's Long-Term Capital Plan plus other short-term liquidity needs, such as potential purchase of tendered 2008 Bonds in the event of a failed remarketing, provided that the Corporation expects to manage portions of the self-liquidity program with certain assets held in the Long-Term Portfolio. The Corporation is negotiating a self-liquidity arrangement with certain of the bond rating agencies whereby it will be required to maintain, in the aggregate, sufficient assets, primarily marketable fixed income securities, publicly traded equity securities and other liquidity support vehicles, to be used to repurchase or reimburse a liquidity provider in the event that any tendered 2008 Bonds are not successfully remarketed. The Short-Term Portfolio is to be invested in high quality fixed income securities of varying maturities, including longer term assets. At February 29, 2008, the Short-Term Portfolio had an aggregate market value of approximately \$161 million and represented approximately 15.9% of the Obligated Group's cash and investments.

Long-Term Portfolio. The Long-Term Portfolio functions as a quasi-endowment. While not intended to experience a significant withdrawal of reserves, this pool serves as a source of cash to cover economic risks and strategic opportunities and, to the extent necessary, self-liquidity associated with funding any required repurchase or reimbursement obligation with respect to unremarketed tenders of 2008 Bonds, as required from time to time. The investment objectives for the Long-Term Portfolio are structured as long-term goals designed to maximize returns without exposure to undue risk. With the understanding that fluctuating rates of return are characteristic of the securities markets, the investment managers' greatest concern is expected to be long-term appreciation of the assets and consistency of total portfolio returns.

At February 29, 2008, the Long-Term Portfolio had an aggregate market value of approximately \$831 million and represented approximately 82% of the Obligated Group's total unrestricted cash and investments. The table below summarizes the Asset Allocation Ranges approved by the Corporation's Board of Directors, the Long-Term Targets for each assets class established by the IMC, as well as the actual asset allocation as of February 29,

2008. Actual allocation may vary over time based on economic and market conditions, as well as during periods when the Corporation is rebalancing its portfolios.

Long-Term Portfolio			Asset Allocation
	Asset Allocation Ranges	Long-Term Target	as of February 29, 2008
Fixed Income	10% to 30%	25%	27.7%
Public Equity	30% to 60%	40%	38.5%
Domestic	5% to 25%	12%	13.5%
Global	5% to 25%	12%	12.8%
International	5% to 25%	16%	12.2%
Private Equity	0% to 20%	7%	0.5%
Real Assets	0% to 10%	3%	0%
Hedge Funds	15% to 45%	25%	33.3%

In November 2007, the Corporation commenced the implementation of a transition plan to rebalance the Long-Term Portfolio in accordance with the newly established asset allocation ranges and targets. The transition was divided into several phases and is still in progress. Over time, the Corporation expects to achieve its allocation targets, subject to the availability of desired investment vehicles and other factors.

Long-Term Portfolio – Fixed Income. The fixed income assets held in the Corporation’s Long-Term Portfolio are managed by an investment manager who must maintain a minimum average portfolio quality of “A-” and a minimum credit quality at purchase of “B-” or equivalent rating by at least one of the major rating services. The investment manager is specifically directed to target an average duration of two years above or below the Lehman Aggregate Bond Index and to limit its holdings to no more than (i) 30% in non-U.S. dollar denominated instruments, (ii) 20% in securities rated below “BBB”, and (iii) 25% in nonleveraged derivatives (including futures), among other additional guidelines. The investment manager also has authority to use its open-end mutual funds, which are not public, in order to gain exposure to different sectors. At February 29, 2008, the fixed income portfolio, which was invested primarily in the manager’s open-ended mutual funds, had an aggregate market value of approximately \$230 million with portfolio effective duration of 5.04 years. The average credit quality of the holdings in the fixed income portfolio was in the “AA” category from the major rating services.

Long-Term Portfolio – Equity. Currently, ten investment managers manage the Corporation’s equity investments, with specific investment mandates among the following categories:

- U.S./Domestic Equity
- International Equity, including emerging markets
- Global Equity, including emerging markets

Each separate account equity manager has specific investment guidelines and defined portfolio benchmarks appropriate for the managed asset class. The Corporation also has significant allocations, approximately \$176 million as of February 29, 2008, to commingled investment vehicles, which are managed in accordance with the offering documents for each commingled fund investment and may have limited liquidity subject to prior redemption notice requirements. One of the international equity investments (approximately \$33 million) is through an offshore fund. Included in the Corporation’s investment policy is a statement that the investment restrictions for the commingled investment funds need not be in compliance with the restrictions of the Corporation’s investment policy, but should be consistent with the intent of the policy.

Long-Term Portfolio – Alternative Investments. In 2003, the Corporation recognized the need to further diversify its investments to reduce overall portfolio volatility in light of its planned capital needs. In accordance with the Corporation’s current investment policies and procedures, the Corporation’s current long-term target is to invest up to 35% of its Long-Term Portfolio in alternative investments, such as private equity, real assets, hedge funds and absolute return investments. Such investments involve a high degree of risk.

The Corporation's allocation to alternative investments currently includes direct hedge fund investments, "fund-of-funds" hedge funds, direct and fund-of-fund private equity investments, as well as investments under multiple asset class mandates with broad investment manager discretion.

As of February 29, 2008, approximately 20% of the alternative investments portfolio was invested in a mutual fund-of-funds which seeks a positive return regardless of market direction and which is not restricted with respect to its exposure to any particular asset class. At the investment manager's discretion, the fund may invest all or substantially all of its assets in a limited number of underlying funds that primarily invest in equity and fixed income securities denominated in both U.S. and foreign currencies with an exposure to both emerging markets and developed markets. This absolute return investment is classified as "mutual fund" in the audited financial statements of the Corporation. However, for purposes of investment management and compliance with investment policy, this absolute return investment is included in the hedge fund category and contributes towards the hedge fund target allocation.

As of February 29, 2008, approximately 9% of the alternative investments portfolio was invested in three offshore hedge funds which employ primarily long/short equity hedge fund strategies. The investment strategies of these hedge funds are speculative and involve significant risk of loss. The funds' portfolios may be highly concentrated and include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the funds of buying these securities to cover the short position. In addition, there can be no assurance that the security necessary to cover a short position will be available for purchase. The funds may also use leverage and such leverage may significantly increase the adverse consequences to which the funds' investment portfolios may be subject. The Corporation's risk of loss is limited to its investment in the funds. Additional risk factors include, but are not limited to, limited transferability, liquidity, and transparency. **There can be no assurance that the hedge fund managers will achieve their investment objectives.** The Corporation expects to increase its direct commitments to hedge funds in the future within the limits of its investment policy.

As of February 29, 2008, approximately 43% of the alternative investments portfolio was invested in three offshore multi-manager "fund-of-funds" hedge funds which implement a range of alternative investment strategies including but not limited to long/short equity, market neutral, diversified futures, commodities, emerging country debt, event driven, merger arbitrage, distressed and high yield, convertibles, interest-rate driven and credit driven. The funds are subject to strategy risk whereby failure or deterioration of an entire strategy can lead to significant losses due to excess concentration by multiple managers in the same investments or broad events that adversely affect particular strategies. Additionally, it is possible that the performance of the fund managers may be closely correlated, resulting in significant losses in adverse market conditions. If the Corporation's "fund-of-funds" hedge fund managers are concentrated in a particular underlying investment manager, asset category, trading style or financial or economic market, the Corporation's investment portfolio may become more susceptible to fluctuations in value and potential losses. The Corporation does not manage correlation risk. This is the risk that the "fund of fund" managers may invest with the same underlying investment managers or that the underlying managers may invest in the same securities and sectors, resulting in less diversification than would be suggested by the number of managers being employed.

The level of risk associated with "fund-of-funds" hedge fund investments is generally greater than the risk associated with traditional fixed income or equity investments. Risk factors associated with these "fund-of-funds" hedge funds include but are not limited to the use of leverage, limited transferability and liquidity. Leverage involves increased risk as well as substantial interest expense. The use of leverage by the funds can, in certain circumstances, increase the adverse impact to which the investment portfolio may be subject. Additional risk factors include limited transferability and liquidity. Some of the "fund-of-funds" hedge funds are subject to liquidity restrictions such as redemption provisions which provide for specified redemption windows with certain advance notice requirements.

The success of "fund-of-funds" hedge funds depends primarily on the investment manager's ability to choose the underlying fund managers as the multi-manager approach delegates control of the funds' investments to persons other than the manager of the "fund-of-funds" hedge funds. Furthermore, the success of the fund-of-funds

depends on the ability of the manager of each underlying fund to implement the fund's investment strategy. **There can be no assurance that the hedge fund managers will achieve their investment objectives.**

The Corporation is in the process of liquidating two "fund-of-fund" hedge fund managers which represented approximately 27% of the alternative investments portfolio as of February 29, 2008. In March 2008, the Corporation received full redemption proceeds in the approximate amount of \$63 million from one of these managers. Approximately \$40 million of the liquidation proceeds was transferred to the Corporation's operating cash account, and the remaining \$23 million was moved to the Corporation's Short-Term Portfolio. The Corporation was the sole investor in the second "fund-of-funds" hedge fund manager. Due to the limited liquidity and redemption restrictions, as well as certain holdback requirements of the underlying hedge funds, the "fund-of-funds" transferred in-kind approximately \$10 million of its underlying fund positions to the Corporation, and retained approximately \$3 million in cash and receivables pending receipt of holdback amounts from underlying managers and completion of "fund-of-funds" audit and liquidation. Approximately \$2 million of the positions transferred in-kind may be uncertain of timing and ultimate recovery based upon difficulties with or characteristics of underlying assets. The remaining positions transferred in-kind by the fund-of-funds, which had an aggregate market value of approximately \$8 million as of February 29, 2008, employ a range of strategies, including but not limited to long/short equity, distressed sub-prime, special opportunities/event driven, and multi-strategy. These hedge funds have various lock-up periods and redemption notice requirements. The Corporation expects that it will redeem out of these funds at the next available opportunity.

In mid-2006, the Corporation made a capital commitment in the amount of \$6 million to a private equity buyout fund invested in privately negotiated investments that have equity-like returns often involving leverage. Such high levels of leverage produce a correspondingly high degree of variability in outcomes; as a result, the fund may incur significant losses.

In March 2008, the Corporation made an additional commitment in the amount of \$9.25 million to a venture capital fund-of-funds investing in venture capital firms who in turn invest in early stage and growth companies. The fund's objective to generate substantial long-term returns has above average risks of venture capital investing. There can be no assurance that the fund manager will be able to locate and complete attractive investments or realize upon their values or invest fully the fund's committed capital.

There can be no assurance that the Corporation's private equity managers will achieve their investment objectives. The success of the funds depends, in large part, upon the skill and expertise of their key management personnel. Additionally, the activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that the funds will be able to locate, consummate and exit investments that satisfy the funds' rate of return objectives or realize upon their values. The private equity investments are highly illiquid and difficult to value. There is no organized secondary market for interests in the funds, and none is expected to develop. The Corporation has limited transferability and withdrawal rights with respect to the funds.

With respect to its private equity investments, the Corporation is subject to capital calls with generally ten days prior notice. As of February 29, 2008, the Corporation's unused capital commitments which are subject to future capital calls by the leverage buyout and venture capital funds were approximately \$2 million and \$9 million, respectively. The Corporation may increase its allocation to private equity investments in the future subject to any limitations imposed by its investment policies.

The investment policies are subject to revision from time to time by the Corporation's Board of Directors. There can be no assurance that the Corporation will achieve its investment objectives or that it will receive any return on its investments. Investment performance may be volatile and the Corporation may lose a significant portion of its investment portfolio. Adverse economic and market conditions or other events could result in substantial or total loss to the Corporation in respect of some or all of its investments.

Certain Indebtedness and Liabilities

In 2007, the Corporation entered into interest rate swap agreements (the "Interest Rate Swaps") with respect to a portion of the 2007 Bonds, for the purpose of managing the Corporation's exposure to fluctuations in

interest rates. As a result of the refunding of the 2007 Refunded Bonds, the Interest Rate Swaps will instead relate to the Series 2008D, 2008E and 2008F Bonds. The Interest Rate Swaps, which convert a portion of the Corporation's floating-rate debt to a fixed rate, hedge a total initial notional amount of \$250 million at a 3.229% fixed interest rate against 55.7% of the USD-LIBOR-BBA rate plus 0.23%. Settlements are made on a monthly basis with the counterparty, Citibank, N.A., over the term of the agreements, each of which expires in December 2040, unless earlier terminated by the Corporation.

The Corporation is currently liable with respect to a NBLSC guarantee and a City guarantee in the aggregate amount of approximately \$1 million.

In April 2008, the Corporation entered into a credit agreement with Bank of America, N.A. (the "Bank"), where the Bank provided a revolving credit facility in the amount of \$70 million. The Corporation used loan proceeds from this credit facility to redeem all of the City's Series 2005C Bonds issued for the benefit of the Corporation. The Corporation expects to repay the loan using a portion of the proceeds of the 2008 Bonds in May 2008, at which time this particular Bank credit facility will be terminated.

Self-Liquidity

The Corporation expects to maintain self-liquidity in connection with a portion of the 2008 Bonds. The Corporation is subject to an arrangement with certain of the bond rating agencies related to the portion of the 2008 Bonds not supported by a Credit Facility (as defined in the Indenture), whereby it must maintain, in the aggregate, sufficient assets, primarily marketable fixed income securities, certain publicly traded equity securities and other liquidity support vehicles, to be used to repurchase such 2008 Bonds not supported by a Credit Facility in the event that tendered 2008 Bonds are not successfully remarketed, as described in the front part of this Official Statement. The total investments in securities with same or next-day liquidity was approximately \$431 million as of February 29, 2008, including cash equivalents held as operating reserves, cash receivable from redemption of a hedge fund, fixed income securities of varying maturities held in the Corporation's Short-Term Portfolio, and certain fixed income holdings part of the Corporation's Long-Term Portfolio. As of February 29, 2008, total investments with same or next-day liquidity represented about 2.1x the outstanding principal amount of the 2008 Bonds expected to be supported by the Corporation's self-liquidity (i.e., the Series 2008A, 2008B and 2008C Bonds). See "Liquidity and Investment Policy" for detailed discussion of the investment program. See also "BONDHOLDERS' RISKS – Other Risk Factors – Risks Relating to Outstanding Variable Rate Obligations" in this Official Statement.

Capitalization

The following table sets forth the capitalization for the Obligated Group as of the fiscal year ended August 31, 2007. The pro forma capitalization has been adjusted to reflect (i) the issuance of the 2008 Bonds, as if such transaction had occurred on August 31, 2007, (ii) the redemption of \$70 million of the City's Series 2005C Bonds which occurred in April 2008 whereby, to redeem the Series 2005C Bonds, the Corporation drew on its taxable line of credit with the Bank, (iii) the expected subsequent repayment of the line of credit described above using a portion of the proceeds from the issuance of the 2008 Bonds, and (iv) the refunding of the remaining \$380 million of the 2005 Bonds and the 2007 Refunded Bonds, all such transactions reflected as if they had occurred on August 31, 2007.

	Actual <u>August 31, 2007</u>	Pro Forma <u>August 31, 2007</u>
	-(000's)-	
Outstanding Long-Term Debt	\$622,950	\$ 622,950
Less: Redemption of 2005C Bonds		(70,000)
Less: Refunded Bonds		(380,000)
Plus: The 2008 Bonds		<u>452,080</u>
Subtotal	622,950	625,030
Total Net Assets	<u>1,218,254</u>	<u>1,218,254</u>
Total Capitalization	\$1,841,204	\$1,843,284
Percent Long-Term Debt to Capitalization	33.8%	33.9%

Estimated Debt Service Coverage

The following table sets forth the Obligated Group's estimated debt service coverage for the fiscal years ended August 31, 2006 and August 31, 2007. The pro forma debt service coverage has been adjusted to reflect (a) the issuance of the 2008 Bonds, as if such transaction had occurred on September 1, 2006, in the aggregate principal amount of \$452,080,000*, (b) the assumption that a portion of the proceeds of the 2008 Bonds has been applied to refund the 2005 Bonds and 2007 Refunded Bonds in the aggregate principal amount of \$450 million (including repayment of a loan under a taxable line of credit with the Bank used to redeem \$70 million of the Series 2005C Bonds (all as more fully described in the "PLAN OF REFUNDING" in this Official Statement)).

	Actual August 31, 2006	Actual August 31, 2007	Pro Forma August 31, 2007
Excess of Revenue over Expenses ^(*)	\$ 71,241	\$ 122,913	\$ 122,913
Depreciation and Amortization	39,692	40,542	40,542
Adjustment for Change in Unrealized Gain/Loss	16,122	25,402	25,402
Interest	<u>17,651</u>	<u>24,317</u>	<u>24,317</u>
Income Available for Debt Service ^(*)	\$144,706	\$213,174	\$213,174
Maximum Annual Debt Service ⁽²⁾	37,353	37,353	39,409
Debt Service Coverage Ratio (times)	3.87x	5.71x	5.41x

[*] In fiscal year 2007, the Corporation reclassified its marketable securities as "trading" under the Guide. In accordance, the Corporation recognized unrealized gains/losses on securities previously considered "other-than-trading." However, for purposes of calculating the debt service coverage ratios, the Corporation has adjusted Income Available for Debt Service to exclude the change in unrealized gains/losses, in accordance with the Master Indenture provisions.

[1] The presentation of Income Available for Debt Service does not include transfers to the Obligated Group Members from Hoag Hospital Foundation. Thus, it does not correlate to the determination of Income Available for Debt Service under the Master Indenture dated as of May 1, 2007, as supplemented.

[2] The actual and pro forma Maximum Annual Debt Service ("MADS") is calculated based on certain assumptions of interest and amortization of existing debt as delineated in the Master Indenture. For purposes of calculating pro forma MADS, the interest rate used on \$250 million of indebtedness subject to swap agreements was 3.229%, and the rate used on the remaining bonds was 5.07%, which is the 30-year Revenue Bond index rate as of May 7, 2008. For purposes of calculating actual MADS, the following interest rates were used (i) for Series 2005 Bonds, 4.05% which is the 12-month average interest rate of the outstanding Series 2005 Bonds through March 31, 2008; (ii) for Series 2007A, 2007B and 2007C Bonds, 3.229%, which is the fixed rate under the Interest Rate Swaps, and (iii) for the Series 2007D and 2007E Bonds, 5.07%, which is the 30-year Revenue Bond Index as of May 7, 2008. In addition, the calculation of MADS assumes a 100% effective swap and does not include adjustment for basis risk, i.e., the calculation assumes swap floating rate received equals floating rate paid. The actual interest rates and amortization will vary from these assumptions and could have the effect of increasing or decreasing Maximum Annual Debt Service and Debt Service Coverage Ratios.

ORGANIZATION AND MANAGEMENT

Corporate Structure

The Corporation has fifty members, twenty-five appointed by the George Hoag Family Foundation and twenty-five by the Association of Presbyterian Members of Orange County. The members elect the Board of Directors of the Corporation. Nominations to the Board are made as follows: a nominating committee of the Board – between nine and thirteen; the Medical Staff – three, and the President & CEO as a director; for a total of thirteen to seventeen nominations.

* Preliminary, subject to change.

Board of Directors

The current members of the Board are listed below. There is currently one vacancy on the Board.

Name	Occupation	Years on Board	Term Expires ^[1]
Stephen Jones, Chair	Commercial Construction Executive	6	2010
Robert W. Evans, Vice Chair	Retired Sales & Marketing Executive	10	2009
Max W. Hampton, Secretary	Retired Merrill Lynch Executive	11	2010
Richard F. Afable, MD	Hospital President & CEO	3	2008
Dick P. Allen	Independent Investment Professional	17	2008
John L. Benner	Retired Financial Management Consultant	3	2010
Allyson Brooks, MD	Physician, Gynecology	1	2009
John L. Curci	Independent Real Estate Investment Manager	11	2009
Jake Easton III	Management Consultant	4	2009
Martin J. Fee, MD	Physician, Internal Medicine, Infectious Diseases	6 mo.	2010
Joanne D. Fix	Retired Accountant	16	2008
Kris V. Iyer, MD	Physician, Endocrinology	2	2008
Gary S. McKitterick	Attorney, Real Estate Law	6 mo.	2010
Richard M. Ortwein, Chair	Independent Real Estate Developer	8	2008
Melinda Hoag Smith	Philanthropist	13	2008
Virginia Ueberroth	Philanthropist	4	2009
Vacancy			n/a

- ^[1] The terms ending in 2008 will expire at the end of the fiscal year ending on August 31, 2008. Effective November 2007, there is a limit of four three-year terms, except that those trustees on the Board in 2007 with more than 12 years of service may serve one additional term.

Management

The management of the Corporation has been delegated by the Board of Directors to the administrative staff. Brief resumes of members of senior management are included below.

President and Chief Executive Officer. Richard Afable, M.D., MPH, age 54, has been President and Chief Executive Officer of the Corporation since August, 2005. Prior to his selection as President and Chief Executive Officer of the Corporation, Dr. Afable served as executive vice president and chief medical officer at Catholic Health East, the largest not-for-profit health care system on the East Coast, and was part of their senior management team, which guided the strategic operation and management of the health system. As executive vice president, he was responsible for all aspects of clinical performance and quality management and had corporate responsibility for information technology, managed care, patient safety, communication, and physician relationships. Before joining Catholic Health East, Dr. Afable was the founder and president/CEO of Preferred Physician Partners (PPP), a physician practice management company that supported physician groups and provider networks. Prior to hospital administration, Dr. Afable was in private practice in Chicago, specializing in internal medicine and geriatrics. Dr. Afable received his BS degree from Loyola University in Chicago and an MD from the Loyola Stritch School of Medicine. He obtained his MPH degree from the University of Illinois School of Public Health and a certificate in business administration from Villanova University in Pennsylvania.

Senior Vice President – Clinical Excellence and Chief Quality Officer. Jack Cox, M.D., MMM, age 54, joined the Corporation in 2006 and directs the quality and performance improvement initiatives for the Corporation, directs Risk Management and Clinical Research, and oversees the five Centers of Excellence (Women's Health Services, Cardiovascular Services, Orthopedic Services, Neuroscience Services, Cancer Services) and the Diabetes Center. Prior to joining the Corporation, he served as Chief Medical Officer and Senior Vice President with Premier, Inc, a national healthcare alliance. There he developed a model for quality improvement initiatives in conjunction with the Institute of Healthcare Improvement and was instrumental in designing a medical technology evaluation process that incorporated quality and safety for Premier. Dr. Cox was a medical director for Intermountain Health Care, Inc. where he led operational and quality improvement for eight outpatient physician

group practices. He has served on the clinical faculty for five medical schools and was previously involved in academics and research for 13 years, including serving as director for two residencies. He has served on a number of boards and committees including the American Hospital Association, the Health Technology Center, an IOM subcommittee and the Joint Commission Journal on Quality. Dr. Cox is a board certified Family Physician, a fellow of the American Board of Family Practice, a fellow of the American College of Physician Executives and holds a master's degree in Medical Management from Tulane University. He has published and spoken nationally and internationally on various aspects of healthcare.

Senior Vice President – Resource Development. Ronald Guziak, age 61, is responsible for direction and supervision of the Corporation's fund raising activities, which are coordinated with Hoag Hospital Foundation. Mr. Guziak is also the Executive Director of Hoag Hospital Foundation. Mr. Guziak graduated from West Virginia University where he received his bachelor's degree in journalism. He earned his master's degree in social science from Wesleyan University in Middletown, Connecticut. Prior to assuming his position with the Corporation, Mr. Guziak served as president of Little Company of Mary Hospital Foundation (Torrance, California) and San Pedro Peninsula Hospital Foundation (San Pedro, California). He has also held positions at St. Luke's Episcopal Hospital (Houston, Texas), California Hospital Medical Center (Los Angeles, California), Memorial Hospital of Glendale (Glendale, California), Northwestern Memorial Hospital (Chicago, Illinois), and Wesleyan University (Middletown, Connecticut). Mr. Guziak is a Fellow in the Association for Healthcare Philanthropy (AHP) and a member of the Association of Fundraising Professionals (AFP).

Senior Vice President – Clinical Operations and Chief Nursing Officer. Richard Martin, MSN, RN, age 50, has been with the Corporation for 16 years and oversees all nursing departments and clinical operations departments, including the emergency care unit, chemical dependency, perioperative services, pharmacy, laboratory services and imaging services. Mr. Martin is active on numerous nursing committees and boards, several of which were formed in response to the state and national nursing shortage. In the late 1990's, he was appointed to the Scott Commission, a panel of nursing industry leaders, to address the nursing shortage in California. He also serves on the Orange County Nurse Executive Council and on the Advisory Board for Nurseweek. At California State University, Long Beach, Mr. Martin is on the Advisory Board and Adjunct Faculty for the School of Nursing. Additionally, Mr. Martin participates in several professional organizations including: American College of Healthcare Executives, Association of California Nurse Leaders, American Organization of Nurse Executives, National League of Nurses, American Society for Quality and Leadership Tomorrow. He is also an active community member, serving as Administrative Representative on the Board of Directors for the Share Our Selves Clinic. Prior to joining the Corporation, Mr. Martin was Assistant Vice President of Patient Care Services at HCA Lewis-Gale Hospital in Salem, Virginia. Mr. Martin received his Masters in Nursing from the University of Virginia and a Bachelor of Science in Nursing from West Virginia University.

Senior Vice President – Corporate Services and Chief Financial Officer. Jennifer C. Mitzner, age 39, has been with the Corporation since 1994. As Chief Financial Officer, she is responsible for all aspects of corporate finance including treasury, accounting, finance, materials management, managed care contracting, patient financial services, patient access functions, and internal audit of the Corporation. Ms. Mitzner is also responsible for all corporate services including human resources, marketing, legal and compliance. Ms. Mitzner received her Master of Public Administration degree in Health Care Administration from the University of San Francisco and her Bachelor of Business Administration, Accounting from Texas Christian University and is a Certified Public Accountant. Ms. Mitzner was previously with KPMG Peat Marwick in the advisory services group for both the healthcare and insurance industry (1990-1994).

EMPLOYEES

As of February 29, 2008, the Corporation and its Wholly-Owned Subsidiaries had approximately 2,932 full-time and 1,115 part-time employees, or 3,773 full-time equivalents. This includes all hospital related functions as well as support functions. Support functions include the Child Care Center, seven outreach medical office buildings and management of the Foundation.

Generally, the markets in which the Corporation operates are experiencing nursing shortages which the Corporation expects to continue for the foreseeable future. To address this shortage, the Corporation has implemented a number of initiatives to fund nursing education programs and expand the supply of nurses. In the

fiscal year ending August 31, 2008, the Corporation expects to award approximately \$40,000 in scholarships to its employees. The scholarship funds help nursing students buy books and pay for tuition and fees. In addition, to support local colleges and universities, the Corporation directly funds professorships for nursing instructors. A one-year professorship, valued at \$100,000, enables 12 nursing students to enroll from a waiting list. Presently, the Corporation partners with Golden West College, California State University, Long Beach, Saddleback College, California State University, Fullerton and Santa Ana College. In the fiscal year ending August 31, 2008, the Corporation expects to fund approximately \$1,000,000 in nursing professorships. In addition, the Corporation recently celebrated the opening of The Marion Knott Nursing Education Center, an on-campus Nursing Education Center featuring classroom space, and the latest technology and equipment to educate current staff, new hires and nursing students performing clinical rotations. To maximize the learning experience, the education center duplicates the Hospital's patient environment.

In 2005, the Hospital was designated as a Magnet Hospital by the American Nurses Credentialing Center (ANCC). The Magnet designation is a key component of the Corporation's nursing recruitment and retention strategy. The Magnet Recognition Program was developed by ANCC to recognize health care organizations that provide nursing excellence and is based on quality indicators and standards of nursing practice as defined in the American Nurses Association's Scope and Standards for Nurse Administrators (2004). The Corporation's certification as a Magnet Hospital is subject to a renewal process every 5 years.

Employees of the Corporation are not represented by any union and management of the Corporation has not observed any significant union activity at the Hospital in recent years. Management considers its relations with its employees to be good.

The Corporation does not sponsor any defined benefit plans. The Corporation offers a defined contribution plan with a match provision that is funded annually. For additional information, see APPENDIX B-1.

LEGAL & REGULATORY MATTERS

The Corporation is involved in various liability disputes, governmental and regulatory inspections, inquiries, investigations, proceedings and litigation matters that arise from time to time in the ordinary course of business. The Corporation is self-insured with respect to professional liability and comprehensive general liability risks, subject to certain limitations. Professional and comprehensive general healthcare liability risks in excess of \$2 million per occurrence are reinsured with major independent insurance companies up to an aggregate liability of \$30 million. See "BONDHOLDERS' RISKS — Business Relationships and Other Business Matters — Professional Liability Claims and General Liability Insurance" and "LITIGATION — Hoag Hospital and NHC" in the forepart of this Official Statement for additional information regarding litigation and claims risks.

POTENTIAL AFFILIATIONS AND TRANSACTIONS

Management expects competitive pressures from competing health care delivery systems to intensify in the future. In particular, competition from specialty providers of care is expected to increase and may negatively affect programs that are economically important to the Corporation. See the section of this Official Statement entitled "BONDHOLDERS' RISKS — Significant Areas Summarized — Proliferation of Competition" and " — Business Relationships and Other Business Matters — Competition Among Healthcare Providers" and " — Integrated Physician Groups." Pursuant to the Corporation's strategic plan, the Corporation is committed to actively pursuing additional economic partnership opportunities with physicians and physician groups, including arrangements which are responsive to these competitive pressures, and may seek opportunities with other healthcare groups as well.

The Corporation may negotiate for and enter into affiliations, joint ventures or contractual arrangements in the future in furtherance of its strategic plans and community mission. Further acquisitions, affiliations or joint ventures may involve substantial capital expenditures or other financial commitments, all or a portion of which may be financed through debt incurred by the Corporation. Such affiliations or joint ventures may involve inpatient or outpatient specialty services performed at or outside the primary Hospital campus and may result in a significant transfer of patient revenues to the joint venture or affiliated entity. Taken individually or in the aggregate, such transactions may be material to the Corporation's finances. Overall, the Corporation expects that such arrangements

would be beneficial to the Corporation and have a positive impact on the operating results of the Corporation, although short-term impact may be negative. Such transactions may involve significant risks.

While the Corporation considers such opportunities as they are presented or in response to strategic initiatives, no definitive agreements with respect to any pending affiliations or joint ventures have been reached at this time. However, the Corporation has entered into exclusive negotiations with respect to two components of a specific transaction which contemplates establishment of a specialty hospital within the Corporation's service area, ultimately consisting both of physicians currently affiliated with the Corporation and others. In the aggregate, this transaction could be financially and operationally material to the Corporation. First, the Corporation is in negotiations to lease a free-standing facility located within the Corporation's service area, suitable for use as a specialty hospital. Second, the Corporation is in negotiations to purchase a majority stake in an existing for-profit outpatient specialty surgery center which could ultimately form a part of the specialty hospital. Negotiations for the facility contemplate a long-term lease as well as certain short-term and long-term purchase options. In addition, a significant capital investment may be required in connection with the establishment of the specialty hospital and acquisition of the specialty surgery center entity. Current plans contemplate creation of a new joint venture entity of which the Corporation would own a controlling interest.

The terms and conditions of the acquisition of the facility and the surgery center group are not defined and will ultimately be subject to approval of the Board of Directors and other conditions, including compliance with applicable Corporation financial covenant requirements. There can be no assurance that the Corporation will successfully complete either transaction or on what terms, or the ultimate impact on the Corporation. If completed, however, it is likely that some existing patient revenues of the Corporation associated with one or more Centers of Excellence would be transferred to the new specialty hospital entity, and that the Corporation may guarantee significant financial elements of the transaction. In any case, implementation of specific strategic affiliations and joint ventures is subject to significant risks and conditions precedent. The Corporation cannot predict whether any such material arrangements will be entered into or the ultimate terms on which they may be developed.

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APPENDIX B-1

**FINANCIAL STATEMENTS OF HOAG MEMORIAL HOSPITAL
PRESBYTERIAN AND AFFILIATES**

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CONSOLIDATED FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION

Hoag Memorial Hospital Presbyterian and Affiliates
Years Ended August 31, 2007 and 2006

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidated Financial Statements and Other Financial Information

Years Ended August 31, 2007 and 2006

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Report of Independent Auditors

Hoag Memorial Hospital Presbyterian and Affiliates

We have audited the accompanying consolidated balance sheets of Hoag Memorial Hospital Presbyterian and Affiliates (the Organization) as of August 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hoag Memorial Hospital Presbyterian and Affiliates as of August 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

November 16, 2007

A member firm of Ernst & Young Global Limited

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidated Balance Sheets (in thousands)

	August 31	
	2007	2006
Assets		
Current assets:		
Cash and equivalents	\$ 103,463	\$ 46,678
Patient accounts receivable, net of allowance for doubtful accounts of \$16,000 in 2007 and \$15,238 in 2006	65,392	62,306
Investments	8,203	15,789
Other receivables	7,825	9,058
Other current assets	11,035	9,345
Total current assets	195,918	143,176
Assets limited as to use:		
Board designated for capital improvements	937,885	864,701
For endowments	73,329	62,436
Under indenture agreement held by trustee	131,485	50,806
Under malpractice claims funding arrangement held by trustee	18,830	17,496
Total assets limited as to use	1,161,529	995,439
Donations and bequests pledged, net of allowance for doubtful accounts and unamortized discount of \$5,888 in 2007 and \$1,869 in 2006	48,637	35,099
Property and equipment, net	660,178	637,421
Other assets	16,834	8,865
Total assets	<u>\$ 2,083,096</u>	<u>\$ 1,820,000</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 24,396	\$ 23,721
Accrued expenses:		
Payroll and payroll taxes	8,659	10,630
Employee benefits	35,419	34,369
Other	2,483	5,141
Accrued liabilities under capitated contracts	11,119	12,861
Estimated third-party payor settlements	918	1,485
Total current liabilities	82,994	88,207
Estimated malpractice claims	11,269	12,200
Bonds payable	622,950	516,000
Liability to annuitants and other beneficiaries	2,083	2,061
Other long-term liabilities	5,955	4,886
Total liabilities	725,251	623,354
Net assets:		
Unrestricted	1,249,369	1,118,182
Temporarily restricted	81,167	61,658
Permanently restricted	27,309	16,806
Total net assets	1,357,845	1,196,646
Total liabilities and net assets	<u>\$ 2,083,096</u>	<u>\$ 1,820,000</u>

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidated Statements of Operations

(in thousands)

	Years Ended August 31	
	2007	2006
	(Reclassified)	
Unrestricted operating revenues:		
Net patient service	\$ 520,197	\$ 491,687
Capitation	80,267	70,960
Other	50,342	47,335
Total unrestricted operating revenues	650,806	609,982
Operating expenses:		
Salaries and employee benefits	298,271	278,591
Professional fees	8,080	7,721
Provision for doubtful accounts	18,973	21,274
Supplies	106,954	103,698
Utilities	8,328	8,600
Insurance	2,475	916
Lease rental	9,307	9,245
Other	27,891	30,072
Purchased services	74,824	72,162
Depreciation and amortization	41,997	41,402
Interest	24,385	17,812
Total operating expenses	621,485	591,493
Income from operations	29,321	18,489
Other income (expense):		
Investment income, net	99,115	60,599
Other nonoperating losses and expenses	(7,445)	(3,782)
Other income, net	91,670	56,817
Excess of revenues over expenses before minority interest	120,991	75,306
Minority interest	(457)	(1,805)
Excess of revenues over expenses	120,534	73,501
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	11,009	18,648
Equity distributions	—	(860)
Unrealized loss from interest rate swap	(356)	—
Increase in unrestricted net assets	\$ 131,187	\$ 91,289

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidated Statements of Changes in Net Assets

(in thousands)

	Years Ended August 31	
	2007	2006
	(Reclassified)	
Unrestricted net assets:		
Excess of revenues over expenses	\$ 120,534	\$ 73,501
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	11,009	18,648
Unrealized loss from interest rate swap	(356)	—
Equity distributions	—	(860)
Increase in unrestricted net assets	131,187	91,289
Temporarily restricted net assets:		
Contributions	26,313	10,839
Investment income	3,731	1,487
Change in value of split-interest agreements	710	1,156
Annuity payments and other	(236)	(274)
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	(11,009)	(18,648)
Increase (decrease) in temporarily restricted net assets	19,509	(5,440)
Permanently restricted net assets:		
Contributions	10,490	322
Change in value of split-interest agreements	13	13
Investment income	3	1
Annuity payments	(3)	(2)
Increase in permanently restricted net assets	10,503	334
Increase in net assets	161,199	86,183
Net assets, beginning of the year	1,196,646	1,110,463
Net assets, end of the year	\$ 1,357,845	\$ 1,196,646

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidated Statements of Cash Flows (in thousands)

	Years Ended August 31	
	2007	2006
	(Reclassified)	
Cash flows from operating activities		
Increase in net assets	\$ 161,199	\$ 86,183
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,997	41,402
Provision for doubtful accounts	18,973	21,274
Net gain on disposition of property and equipment	(258)	(62)
Temporarily and permanently restricted contributions	(20,871)	(15,056)
Unrealized loss from interest rate swap	356	—
Changes in operating assets and liabilities:		
Patient accounts receivable	(22,059)	(33,321)
Other receivables and other current assets	(457)	(3,403)
Donations and bequests pledged	(13,538)	8,691
Board designated assets and endowments	(84,077)	21,734
Investments	7,586	1,279
Accounts payable	675	(14,597)
Accrued expenses	(3,579)	(5,348)
Accrued liabilities under capitated contracts	(1,742)	(894)
Estimated third-party payor settlements	(567)	707
Estimated malpractice claims	(931)	(2,450)
Liability to annuitants and other beneficiaries	22	(708)
Net cash provided by operating activities	82,729	105,431
Cash flows from investing activities		
Decrease (increase) in assets under indenture agreement held by trustee	(80,679)	43,258
Increase in assets under malpractice claims funding arrangement held by trustee	(1,334)	(639)
Decrease in health and dental insurance claims	—	1,414
Increase in other assets	(7,969)	(2,167)
Purchase of property and equipment, net	(64,496)	(148,705)
Net cash used in investing activities	(154,478)	(106,839)
Cash flows from financing activities		
Proceeds from bond issuance	422,950	—
Repayment of bonds	(316,000)	—
Decrease in other long-term liabilities	713	1,419
Proceeds from temporarily and permanently restricted contributions	20,871	15,056
Net cash provided by financing activities	128,534	16,475
Net increase in cash and equivalents	56,785	15,067
Cash and equivalents, beginning of the year	46,678	31,611
Cash and equivalents, end of the year	\$ 103,463	\$ 46,678
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 24,954	\$ 17,726

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements

August 31, 2007

1. Summary of Significant Accounting Policies

Organization

Hoag Memorial Hospital Presbyterian (the Hospital) is a not-for-profit corporation operating a general acute care hospital in Newport Beach, California. The Hospital provides inpatient, outpatient and emergency services for residents of Orange County, California.

Hoag Hospital Foundation (the Foundation) is a not-for-profit corporation which raises funds to support the Hospital. The Hospital is the sole voting corporate member of the Foundation.

Hoag Practice Management, Inc. (HPMI) is a for-profit taxable California corporation that primarily provides management and billing services to medical offices that provide physician health care services to patients in the Hospital's service area. HPMI is wholly owned by the Hospital.

Coastal Physicians Purchasing Group, Inc. (Coastal Physicians) is a taxable California non-profit corporation that primarily serves as a purchasing co-operative for physicians. The Hospital exerts significant influence over Coastal Physicians.

Bluff View LLC (Bluff View) and Newport Healthcare Center LLC (NHC) are wholly owned subsidiaries of the Hospital which acquire, develop and manage property.

The Hospital has a 75% ownership in a joint venture, Newport Imaging Center (NIC), over which it exerts significant influence. NIC operates imaging centers in Orange County, California.

The Hospital has a 57% ownership interest in a joint venture, Newport Beach Lido Surgery Center LLC (Lido Surgery), over which it exerts significant influence. Lido Surgery operates an outpatient surgery center near the Hospital.

Basis of Consolidation

The consolidated financial statements include the accounts of the Hospital, the Foundation, HPMI, Coastal Physicians, Bluff View, NHC, NIC and Lido Surgery (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the Organization's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

During 2007, the Organization determined that its investment portfolio, previously designated as "other-than-trading," should be designated as "trading" in accordance with the *AICPA Audit and Accounting Guide, Health Care Organizations* (the Guide). The Guide requires that the changes in unrealized gains and losses on marketable securities designated as trading be reported within excess of revenues over expenses. Therefore, a reclassification has been made to the accompanying 2006 consolidated statement of operations to include approximately \$15.3 million of changes in net unrealized gains and losses on marketable securities as a decrease in investment income. Prior to the reclassification, such amounts were reported as a decrease in unrestricted net assets. In addition, cash flows from the purchases and sales of investments were previously reported within the consolidated statements of cash flows as a component of investing activities. Due to the change in designation to "trading," certain reclassifications have been made to the 2006 consolidated statement of cash flows to include these net purchases and sales as a component of operating activities. The reclassifications had no impact on the previously reported amounts for investments, unrestricted net assets or the total change in unrestricted net assets.

Certain other prior-year amounts have been reclassified to conform to current-year presentation.

Cash and Equivalents

All highly liquid investments with a maturity of three months or less are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturity of the investments.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in investment income unless the income or loss is restricted by donor or law.

Accounts Receivable

The Organization receives payment for services rendered to patients from the federal and state governments under the Medicare and Medi-Cal programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payors. The following table summarizes the percentage of net accounts receivable from all payors at August 31:

	2007	2006
Government	20%	17%
Contracted	74%	70%
Other	6%	13%
	100%	100%

The Organization's management believes there is no credit risk associated with receivables from government programs. Receivables from managed care programs and others are from various payors who are subject to differing economic conditions, and do not represent any concentrated risks to the Organization. Management continually monitors and adjusts the provision for contractual discounts and doubtful accounts associated with receivables based on historical experience.

Assets Limited as to Use

Assets limited as to use include assets that are held by trustees under indenture agreements, under malpractice trust arrangements, Foundation endowment assets, or are set aside by the Organization's Board of Directors (the Board) for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Donations and Bequests

Donations and bequests of private support are recorded as revenue upon the receipt of the unconditional promise to give. The Organization is the ultimate remainderman of certain trusts. Assets that relate to irrevocable, unconditional promises to give are included in the consolidated financial statements at fair market value in temporarily or permanently restricted net assets, depending on donor restrictions. The Organization believes that certain donations and bequests pledged may not be collected and has provided an allowance for such amounts.

Property and Equipment

Property and equipment acquisitions are recorded at cost or fair market value for donated items. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Lives range from three to 20 years for equipment and 10 to 40 years for buildings and improvements. Amortization of leasehold improvements is provided over the shorter of the estimated useful lives of the assets or the lease term and is computed using the straight-line method.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are included in the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Accounting for the Impairment or Disposal of Long-Lived Assets

The Organization accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with SFAS No. 144, long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Deferred Financing Costs

Costs incurred in obtaining long-term financing are amortized over the term of the related obligations using the interest method.

Derivative and Hedging Instruments

In accordance with Financial Accounting Standards Board Statement (FAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its amendments in FAS Nos. 137 and 138, the Organization is required to recognize all derivatives on the consolidated balance sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through the consolidated statements of operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair values of the derivatives are offset against either the change in fair value of assets, liabilities, or firm commitment through the consolidated statements of operations, or recognized as a change in unrestricted net assets until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in the excess of revenues over expenses.

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include equity distributions, change in unrealized gains and losses on the interest rate swap and contributions of long-lived assets, and towards specific programs (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenues

Net patient service revenues are reported at the net realizable amounts from patients, third-party payors and others when services are rendered, including estimated settlements under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that actual settlements in the near term will differ from the estimated accrued settlements, although such settlements are not expected to be material to the consolidated financial position or results of operations of the Organization.

In the opinion of the Organization's management, adequate provision has been made for such adjustments, if any, that might arise. The Organization's net patient service revenues from Medicare and Medi-Cal approximated 23% and 1% of the consolidated net patient service revenues in both 2007 and 2006. Net patient service revenue includes \$0.6 million in 2007 and \$1.1 million in 2006 relating to favorable final settlement of prior years' reimbursement from Medicare, Medi-Cal and other programs.

The Organization is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Organization believes that it is in compliance with all applicable laws and regulations, and it is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

Revenue Earned on Prepaid Capitation Contracts

The Hospital has agreements with various health plans to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each plan's participants enrolled with participating medical groups that have designated the Hospital as their provider. The Hospital is responsible for certain hospital contracted services provided to these plan participants, including services rendered at other health care facilities. The agreements call for risk-sharing arrangements between the Hospital and the participating physician groups dependent primarily on utilization. The Hospital has accrued for estimated risk-sharing settlements and claims for services from outside providers. Accrued liabilities related to these services are generally based on historical claims lag analyses and are continually monitored and reviewed by management.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not recognized as revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are received by the Hospital and Foundation, and reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Self-Insurance

The Organization provides certain benefits to its employees and others under health and other insurance programs and is self-insured with respect to certain of the benefits under such programs. In addition, the Organization is self-insured with respect to professional liability and comprehensive general liability risks, subject to certain limitations. Professional and general liability risks in excess of \$2.0 million per occurrence, and employee health risks in excess of \$400,000 per occurrence, are reinsured with major independent insurance companies. Based on actuarially determined estimates, an accrual has been made in the accompanying consolidated balance sheets for estimated losses relating to all known claims and incurred but not reported incidents as of August 31, 2007 and 2006.

The Organization is self-insured for workers' compensation claims, subject to certain limitations. The liability risks in excess of \$1.0 million per occurrence for 2007 and 2006 are reinsured with major independent insurance companies. Based on actuarially determined estimates, an accrual has been made in the accompanying consolidated balance sheets for estimated losses relating to all known claims and incurred but not reported incidents as of August 31, 2007 and 2006.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Hospital and the Foundation are exempt from federal and California state income and franchise taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d), respectively. The Hospital and Foundation are recognized as public charities (not private foundations) under Sections 509(a)(1) and 170(b)(1)(A)(iii) and (iv), respectively. Neither entity is a private foundation as defined by Section 509(a).

Split-Interest Agreements

Split-interest agreements represent charitable remainder trusts that are arrangements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust term. The Foundation serves as trustee of these arrangements and recognizes the contribution in the period in which the trust is established. The assets are recorded at fair value when received and the liability to the designated beneficiary is recorded at the present value of the estimated future payments to be distributed over the expected life of the beneficiary using a discount rate. The fair value of charitable remainder trusts where the Foundation serves as trustee is \$2.8 million at August 31, 2007, and \$2.6 million at August 31, 2006. The present value of the related liabilities is \$0.9 million at August 31, 2007, and \$0.9 million at August 31, 2006.

Other Nonoperating Losses

Other nonoperating losses consist of capital improvement projects that were abandoned due to other strategic considerations and other nonoperating expenses.

2. Investments

Assets Limited as to Use

Assets limited as to use are recorded at fair market value and include assets which have been designated by the Hospital's Board of Directors for major equipment purchases, the renovation and replacement of plant facilities, and payment of potential malpractice and general liability claims.

The Foundation's Board of Directors has designated \$32.7 million at August 31, 2007, and \$31.9 million at August 31, 2006, as Board-designated funds functioning as an endowment to be invested to provide income for a long but unspecified period of time. These assets have been classified under assets limited as to use for endowments.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Investments (continued)

Assets Limited as to Use (continued)

Funds held by trustee under indenture agreements are subject to qualified expenditure reimbursements by the trustee.

The composition of assets limited as to use at August 31 is set forth below:

	2007	2006
	<i>(in thousands)</i>	
Board designated for capital improvements:		
Cash	\$ 49,997	\$ 16,496
U.S. government agency and treasury notes	82,053	113,198
Mutual funds	413,858	256,736
Debt and equity securities	187,777	295,053
Alternative investments	204,200	183,218
	<u>\$ 937,885</u>	<u>\$ 864,701</u>
For endowments:		
Cash	\$ 608	\$ 262
Mutual funds	57,771	51,023
Debt and equity securities	10,674	9,405
Alternative investments	4,276	1,746
	<u>\$ 73,329</u>	<u>\$ 62,436</u>
Under indenture agreement – cash and short-term investments	<u>\$ 131,485</u>	<u>\$ 50,806</u>
Under malpractice claims funding arrangement:		
Cash and short-term investments	\$ 513	\$ 106
U.S. government agency and treasury notes	5,159	3,833
Debt and equity securities	13,158	13,557
	<u>\$ 18,830</u>	<u>\$ 17,496</u>

The Organization's mutual funds include a mutual fund-of-funds which seeks a positive return regardless of market direction and which is not restricted with respect to its exposure to any particular asset class. At the investment manager's discretion, the fund may invest all or substantially all of its assets in a limited number of underlying funds that primarily invest in marketable equity and fixed income securities denominated in both U.S. and foreign currency with an exposure to both emerging markets and developed markets. As of August 31, 2007 and 2006, this mutual fund-of-funds comprised approximately 5% of the Organization's assets limited as to use.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Investments (continued)

Assets Limited as to Use (continued)

The Organization's alternative investments consist of a private equity buyout fund and four offshore multi-manager "fund-of-funds" hedge funds which implement a range of alternative investment strategies including but not limited to long/short equity, market neutral, diversified futures, commodities, emerging country debt, and currency hedge. The Organization uses the cost or equity method of accounting for its investment in these alternative investments, depending on its level of ownership in the investment in accordance with Emerging Issues Task Force Topic D-46, *Accounting for Limited Partnership Investments*. As of both August 31, 2007 and 2006, the alternative investments comprised approximately 18% of the Organization's assets limited as to use. The fair value of alternative investments recorded under the cost method are not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and the Organization determined that it is not practical to determine the fair value of the investment.

Investments

The following is a summary of investments, other than assets limited as to use, held by the Organization at August 31, 2007 and 2006. Investments are stated at fair value.

	2007	2006
	Fair Market	Fair Market
	Value	Value
	<hr/> (in thousands) <hr/>	
Investments – debt and equity securities	\$ 8,203	\$ 15,789

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Investments (continued)

Investments (continued)

The following table is a summary of the gross unrealized losses and fair value of investments, including assets limited as to use, aggregated by investment category and length of time for individual securities that have been in a continuous unrealized loss position at August 31, 2007:

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	<i>(in thousands)</i>			
U.S. government agency and treasury notes	\$ 6,186	\$ 3	\$ 2,444	\$ 90
Debt and equity securities	195,531	9,702	33,551	2,270
Mutual funds	5,329	209	185,570	4,773
	<u>\$ 207,046</u>	<u>\$ 9,914</u>	<u>\$ 221,565</u>	<u>\$ 7,133</u>

Net investment income for the year ended August 31 consists of:

	2007	2006
	<i>(in thousands)</i>	
Interest and dividend income	\$ 40,177	\$ 31,856
Net gains and losses on fair value of investments	63,773	32,980
Less investment fees	(4,835)	(4,237)
	<u>\$ 99,115</u>	<u>\$ 60,599</u>

3. Donations and Bequests Pledged

The Organization has received contributions under various types of split-interest agreements including charitable remainder annuity trusts and charitable remainder gift unitrusts. Such unconditional irrevocable agreements are reported at fair value at the date the promise is received. In determining the fair value of such assets, the Organization uses the present value of estimated future cash flows using a discount rate commensurate with the risks involved ranging from 7% to 11%. For unconditional irrevocable agreements where the assets, or a portion of the assets, are being held for the benefit of others, such as the donor or third parties designated by the donor, a liability, measured at the present value of the expected future payments to be made to other beneficiaries, has been recorded in the accompanying consolidated balance sheets.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Donations and Bequests Pledged (continued)

The Organization is a beneficiary to assets contributed by donors under unconditional irrevocable agreements which are held by independent trustees or other fiscal agents. Where possible, assets have been included at estimated fair value in the accompanying consolidated financial statements. In some cases, the estimated fair value of such assets cannot be determined and, accordingly, such assets are not included in the accompanying consolidated financial statements.

The amounts of net donations pledged that are receivable at August 31 consist of the following:

	August 31	
	2007	2006
	<i>(in thousands)</i>	
Due in one year or less	\$ 10,778	\$ 1,279
Due after one year through five years	17,952	14,308
Due after five years	7,702	4,138
	36,432	19,725
Less amount representing interest	5,306	1,384
Pledges receivable	31,126	18,341
Split-interest agreements	17,511	16,758
	\$ 48,637	\$ 35,099

The Organization is also the beneficiary of various revocable trusts. The value of certain of these trusts has not been disclosed to the Organization and cannot be reasonably estimated. Assets that relate to revocable trusts or conditional promises to give, for which the Organization is not trustee, are not included in the accompanying consolidated financial statements. The Organization includes these donations as revenue when the amounts are received or when the promise to give becomes unconditional. The fair value of certain of these assets was determined by calculating the net present value of the estimated future cash flows using a discount rate at the time the pledge was made which ranges between 3% and 6%.

The Organization is the beneficiary of volunteers performing numerous non-clinical functions in all areas of the Organization. Management has not estimated the fair value of services provided and no revenue is recognized as a result of these donated services.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Property and Equipment

A summary of property and equipment at August 31 follows:

	2007	2006
	<i>(in thousands)</i>	
Land	\$ 64,973	\$ 64,973
Buildings and improvements	629,685	596,073
Equipment	294,040	277,553
Construction-in-progress	46,767	39,716
	1,035,465	978,315
Less accumulated depreciation	(375,287)	(340,894)
Property and equipment, net	\$ 660,178	\$ 637,421

The Organization has outstanding commitments to complete construction-in-progress projects totaling approximately \$112.8 million at August 31, 2007. These projects relate primarily to the construction of new buildings and the renovation of the Hospital's existing buildings in connection with a hospital campus-wide master plan.

5. Bonds Payable

Insured Revenue Bonds (Auction-Rate Securities) Series 2007

On May 31, 2007, \$423.0 million of tax-exempt City of Newport Beach Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian) Series 2007 A-E (the Series 2007 Bonds) were issued as auction-rate securities by the Organization through a bond indenture agreement (the 2007 Indenture) with the City of Newport Beach.

The Series 2007 Bonds were initially issued as auction-rate securities and bear interest at auction-rates for generally successive seven-day auction periods. Interest is generally payable weekly on the business day following the end of each auction period. The average interest rate for these Bonds in 2007 was 3.62%. At the option of the Organization and subject to the provisions of the 2007 Indenture, the auction period for any Series of auction-rate securities may be changed to 35 days, and the auction date for any Series of auction-rate securities may be changed to another day of the week. In addition, the interest on any Series of Bonds may be converted to a weekly rate, a term rate, or a serial bond interest rate.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Bonds Payable (continued)

Insured Revenue Bonds (Auction-Rate Securities) Series 2007 (continued)

The scheduled payment of the principal of, and interest on, the Series 2007 Bonds when due is guaranteed under a municipal new issue insurance policy by Ambac Assurance Corporation. The Organization has agreed to comply with additional financial and operating covenants which are for the sole benefit of the insurer and may be enforced, waived or modified at any time at the insurer's sole discretion, so long as the insurer is not in default of its payment obligations under the policy.

The auction-rate securities are not supported by a liquidity facility. The beneficial owners of an auction-rate security may sell, transfer, or dispose of its auction-rate security only pursuant to a bid or sell order in accordance with established auction procedures or through a broker-dealer for the applicable Series of auction-rate securities.

The final maturity date for the Series 2007 Bonds is December 1, 2040. The Series 2007 Bonds are subject to redemption, at the option of the Organization, prior to their stated maturity. The Series 2007 Bonds are also subject to mandatory redemption with varying redemption payments commencing on December 1, 2012, and required to be made through December 1, 2040.

The Series 2007 Bonds are classified as long-term in the accompanying consolidated balance sheets.

Insured Revenue Bonds (Auction-Rate Securities) Series 2005

On August 24, 2005, \$200.0 million of tax-exempt City of Newport Beach Insured Revenue Bonds (Hoag Memorial Hospital Presbyterian) Series 2005 A-C (the Series 2005 Bonds) were issued as auction-rate securities by the Organization through a bond indenture agreement (the 2005 Indenture) with the City of Newport Beach.

The Series 2005 Bonds were initially issued as auction-rate securities and bear interest at auction-rates for generally successive seven-day auction periods. Interest is generally payable weekly on the business day following the end of each auction period. The average interest rate for these Bonds in 2007 was 3.37%. At the option of the Organization and subject to the provisions of the 2005 Indenture, the auction period for any Series of auction-rate securities may be changed to 35 days, and the auction date for any Series of auction-rate securities may be changed to another day of the week. In addition, the interest on any Series of Bonds may be converted to a weekly rate, a term rate, or a serial bond interest rate.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Bonds Payable (continued)

Insured Revenue Bonds (Auction-Rate Securities) Series 2005 (continued)

The scheduled payment of the principal of, and interest on, the Series 2005 Bonds when due is guaranteed under a municipal new issue insurance policy by Financial Guaranty Insurance Company. The Organization has agreed to comply with additional financial and operating covenants which are for the sole benefit of the insurer and may be enforced, waived or modified at any time at the insurer's sole discretion, so long as the insurer is not in default of its payment obligations under the policy.

The auction-rate securities are not supported by a liquidity facility. The beneficial owners of an auction-rate security may sell, transfer, or dispose of its auction-rate security only pursuant to a bid or sell order in accordance with established auction procedures or through a broker-dealer for the applicable Series of auction-rate securities.

The final maturity date for the Series 2005 Bonds is December 1, 2040. The Series 2005 Bonds are subject to redemption, at the option of the Organization, prior to their stated maturity. The Series 2005 Bonds are also subject to mandatory redemption with varying redemption payments commencing on December 1, 2016, and required to be made through December 1, 2040.

The Series 2005 Bonds are classified as long-term in the accompanying consolidated balance sheets.

Assets Pledged Under Master Trust Indenture

Essentially all of the cash, investments, receivables, revenues and income of the Hospital and NHC are pledged as security under a Master Trust Indenture dated of May 1, 2007, as supplemented.

Variable-Rate Demand Revenue Bonds

In October 1992, \$91.0 million of tax-exempt City of Newport Beach variable-rate demand revenue bonds (Hoag Memorial Hospital Presbyterian) Series 1992 were issued by the Organization through an indenture agreement with the City of Newport Beach. These bonds were paid in full on August 29, 2007, using proceeds from the Series 2007 Bonds.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Bonds Payable (continued)

Variable-Rate Demand Revenue Bonds (continued)

In December 1996, \$100.0 million of tax-exempt City of Newport Beach variable rate demand revenue bonds (Hoag Memorial Hospital Presbyterian) Series 1996 were issued by the Organization through an indenture agreement with the City of Newport Beach. These bonds were paid in full on August 29, 2007 using, in part, \$77.3 million of proceeds from the Series 2007 Bonds.

In December 1999, \$125.0 million of tax-exempt City of Newport Beach variable rate demand revenue bonds (Hoag Memorial Hospital Presbyterian) Series 1999 were issued by the Organization through an indenture agreement with the City of Newport Beach. These bonds were paid in full on August 29, 2007, using, in part, \$117.7 million of proceeds from the Series 2007 Bonds.

Unamortized bond issuance costs of \$1.1 million were charged to interest expense in 2007 in connection with the redemption of the variable-rate demand revenue bonds.

Interest Rate Swap

In 2007, the Hospital entered into a derivative financial instrument, specifically an interest rate swap agreement with an effective date of May 31, 2007, for the purpose of managing the Hospital's exposure to fluctuations in interest rates. The swap is designated as, and qualifies as, a cash flow hedge. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a change in unrestricted net assets. The ineffective portion is reported in interest expense in the same period or periods during which the hedged transaction affects earnings.

The interest rate swap effectively converts a portion of the Hospital's Series 2007 Bonds to a fixed-rate basis for the term of the bonds, thus reducing the impact of interest-rate changes on future interest expense. The swap agreement hedged an initial notional amount of \$250.0 million at a 3.229% fixed interest rate against 55.7% of the USD-LIBOR-BBA rate plus 0.23%. Settlements are made monthly over the term of the agreement.

During 2006, the Hospital settled for an immaterial amount an interest rate swap that it had entered into in 2002 on the Series 1992 and Series 1999 bonds that effectively converted a portion of its floating-rate debt to a fixed-rate basis for the next five years, thus reducing the impact of interest-rate changes on future interest expense. The swap agreement hedged an initial notional amount of \$150.0 million at a 3.235% fixed interest rate against 67% of the average USD-LIBOR-BBA rate. Settlements were made monthly on the 26th day of each month over the term of the agreement.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes or periods at August 31:

	2007		2006	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
	<i>(in thousands)</i>			
Women's Pavilion	\$ 2,456	\$ 6,466	\$ 4,721	\$ –
Heart programs	20,652	4,009	10,777	2,082
Cancer programs	34,255	12,542	20,701	6,256
Other programs	14,607	4,095	14,320	8,274
Time-restricted assets	9,197	197	11,139	194
	<u>\$ 81,167</u>	<u>\$ 27,309</u>	<u>\$ 61,658</u>	<u>\$ 16,806</u>

7. Net Assets Released from Restrictions

Net assets were released from donor restrictions for the year ended August 31, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2007	2006
	<i>(in thousands)</i>	
Purpose restrictions accomplished:		
Women's Pavilion	\$ 3,452	\$ 12,922
Heart programs	1,786	357
Cancer programs	1,170	896
Education programs	2,386	674
Other projects	2,215	3,799
Total restrictions released	<u>\$ 11,009</u>	<u>\$ 18,648</u>

8. Retirement Plan

The Organization has a sheltered savings plan in which substantially all full-time employees who meet certain criteria, as defined, are eligible. The plan provides for an automatic annual contribution by the Organization of 3% to 6.5% of gross wages based on years of service of eligible employees and a matching contribution by the Organization of 50%, up to 4% of gross wages of eligible employee contributions. Total expense for the plan was \$10.0 million in 2007 and \$9.8 million in 2006. It is the Organization's policy to make contributions to the plan equal to the amounts accrued as expense.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Health and Welfare Benefits

The Organization maintains self-insured medical, unemployment and workers' compensation coverage for all active, regularly scheduled, full-time and part-time employees. The cost of such benefit plans is accrued for in the period services are rendered. Accruals for unpaid claims are based on estimated settlements for reported claims and on experience-based estimates for unreported claims. Claims are paid as received.

10. Charity Care (Unaudited)

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Generally, services are provided without charge to uninsured patients with family incomes at or below 200% of the Federal Poverty Level as published by the Department of Health and Human Services. Charges are discounted to the Medicare fee schedule rate to uninsured patients with family incomes above 200% up to 350% of the Federal Poverty Level. Charges are discounted to 125% of the Medicare fee schedule rate to uninsured patients with family income above 350% up to 400% of the Federal Poverty Level. The Hospital maintains records to identify and monitor the level of charity care it provides. The following is an estimate of the cost of providing charity care provided during the years ended August 31:

	<u>2007</u>	<u>2006</u>
	<i>(in thousands)</i>	
Estimated costs and expenses incurred to provide charity and indigent care	<u>\$ 5,675</u>	<u>\$ 3,739</u>

In addition, the Hospital provides services to indigent individuals covered by governmental programs that reimburse healthcare providers at levels below the cost of providing such care (including MediCal and MSI programs). The Hospital provides numerous other services free of charge to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. These services include referral services, health care screenings, community support groups and health education programs. Estimated unreimbursed costs of community benefit including charity care and care to indigent individuals approximated \$26.4 million and \$25.5 million for the years ended August 31, 2007 and 2006, respectively. The above amounts also do not include volunteer services provided by Hospital staff to the community on their personal time, nor services provided that are funded as a result of the Hospital's fund-raising activities.

Hoag Memorial Hospital Presbyterian and Affiliates
Notes to Consolidated Financial Statements (continued)

11. Disclosures About Fair Value of Financial Investments

The following methods are used to estimate the fair value of each class of financial instruments:

Short-Term Investments

The fair value of short-term investments, such as mutual funds, is based upon quoted market prices.

Long-Term Investments

The fair value of investments is estimated based on quoted market prices for these investments.

Bonds Payable

The fair value of the Hospital's bonds payable is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Hospital for debt of the same remaining maturities. The fair value of the Hospital's debt approximated its carrying value at August 31, 2007 and 2006.

12. Functional Expenses

The Organization provides general health care services to residents within its service areas. Expenses relating to providing these services are as follows for the years ended August 31:

	2007	2006
	<i>(in thousands)</i>	
Health care services	\$ 416,681	\$ 398,565
General and administrative	174,075	170,107
Fundraising	6,344	5,009
Interest	24,385	17,812
	<u>\$ 621,485</u>	<u>\$ 591,493</u>

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Commitments and Contingencies

Leases

The Organization leases certain equipment and office space under noncancelable operating lease agreements which expire on various dates through the year 2020. Certain leases continue escalation clauses that are fixed or variable based on inflationary measurements as well as renewal options of varying terms. The leases require minimum annual rental payments as follows:

Fiscal year:	<i>(in thousands)</i>
2008	\$ 4,607
2009	4,211
2010	3,980
2011	3,625
2012	2,678
Thereafter	11,043
	<u>\$ 30,144</u>

Rental expense totaled \$9.3 million in 2007 and \$9.2 million in 2006.

The Organization leases certain office space to others under noncancelable operating leases expiring on various dates. Certain leases contain escalation clauses that are fixed or variable based on inflationary measurements as well as renewal options of varying terms. Future minimum rental revenue due the Hospital under these leases is as follows:

Fiscal year:	<i>(in thousands)</i>
2008	\$ 4,020
2009	3,507
2010	2,890
2011	1,975
2012	978
Thereafter	566
	<u>\$ 13,936</u>

Rental income totaled \$5.7 million in 2007 and \$4.5 million in 2006, and is included in other unrestricted operating revenues in the accompanying consolidated statements of operations.

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Commitments and Contingencies (continued)

Medical Malpractice

The Organization maintains a self-insurance accrual for potential malpractice and general liability claims. The Organization is self-insured for the first \$2.0 million per claim. Estimated losses from asserted and unasserted claims are accrued based on actuarial estimates that incorporate the Organization's past experience, as well as other considerations. Reinsurance policies have been negotiated for amounts in excess of \$2.0 million. The Organization maintains an irrevocable trust to maintain assets set aside for potential medical malpractice and general liability claims. Liabilities of \$11.3 million at August 31, 2007, and \$12.2 million at August 31, 2006, have been accrued for claims and potential claims incurred but not reported to the Organization.

Seismic Regulations

The state of California has passed legislation requiring hospitals to perform structural evaluations of their buildings by 2001 and upgrade facilities to meet certain minimum seismic standards by 2013. The Organization has completed its evaluation of its seismic standards and has obtained approval by OSHPD of this evaluation. The Organization currently estimates the costs associated with these seismic improvements will be approximately \$67.0 million.

Legal Matters

The Organization is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, the Organization's management estimates that these matters will be resolved without material adverse effect on the Organization's future consolidated financial position or results of operations.

Healthcare Reform

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion of government healthcare programs together with

Hoag Memorial Hospital Presbyterian and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Commitments and Contingencies (continued)

Healthcare Reform (continued)

the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Organization's management believes that the Organization is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Hoag Memorial Hospital Presbyterian and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

November 16, 2007

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidating Balance Sheet

August 31, 2007

	Hospital and NHC	Other Entities	Foundation	(A) Eliminations	Consolidated
	<i>(in thousands)</i>				
Current assets:					
Cash and equivalents	\$ 78,801	\$ 2,580	\$ 22,082	\$ —	\$ 103,463
Patient accounts receivable, net of allowance for doubtful accounts	63,056	2,336	—	—	65,392
Investments	5,378	—	2,825	—	8,203
Other receivables	6,107	1,718	—	—	7,825
Other	10,410	267	358	—	11,035
Due from Hospital	—	—	—	—	—
Due from Foundation	1,219	—	—	(1,219)	—
Due from other entities	713	—	—	(713)	—
Total current assets	165,684	6,901	25,265	(1,932)	195,918
Assets limited as to use:					
Board designated for capital improvements	937,885	—	—	—	937,885
For endowments	—	—	73,329	—	73,329
Under indenture agreement held by trustee	131,485	—	—	—	131,485
Under malpractice claims funding arrangement held by trustee	18,830	—	—	—	18,830
Total assets limited as to use	1,088,200	—	73,329	—	1,161,529
Donations and bequests pledged, net of allowance for doubtful accounts and unamortized discount	4,500	—	44,137	—	48,637
Property and equipment, net	651,625	8,553	—	—	660,178
Other assets	26,116	1,488	—	(10,770)	16,834
Total assets	\$ 1,936,125	\$ 16,942	\$ 142,731	\$ (12,702)	\$ 2,083,096

(A) To eliminate intercompany accounts.

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidating Balance Sheet (continued)

August 31, 2007

	Hospital & NHC	Other Entities	Foundation	(A) Eliminations	Consolidated
	<i>(in thousands)</i>				
Current liabilities:					
Accounts payable	\$ 23,562	\$ 758	\$ 76	\$ —	\$ 24,396
Accrued expenses:					
Payroll and payroll taxes	8,421	238	—	—	8,659
Employee benefits	34,470	949	—	—	35,419
Other	2,095	388	—	—	2,483
Accrued liabilities under capitated contracts	11,119	—	—	—	11,119
Estimated third-party payor settlements	918	—	—	—	918
Due to Hospital	—	713	981	(1,694)	—
Due to Foundation	238	—	—	(238)	—
Total current liabilities	80,823	3,046	1,057	(1,932)	82,994
Estimated malpractice claims	11,269	—	—	—	11,269
Bonds payable	622,950	—	—	—	622,950
Liability to annuitants and other beneficiaries	—	—	2083	—	2,083
Other long-term liabilities	2,829	254	—	2,872	5,955
Total liabilities	717,871	3,300	3,140	940	725,251
Net assets:					
Unrestricted	1,215,363	13,642	34,006	(13,642)	1,249,369
Temporarily restricted	2,891	—	78,276	—	81,167
Permanently restricted	—	—	27,309	—	27,309
Total net assets	1,218,254	13,642	139,591	(13,642)	1,357,845
Total liabilities and net assets	\$ 1,936,125	\$ 16,942	\$ 142,731	\$ (12,702)	\$ 2,083,096

(A) To eliminate intercompany accounts.

Hoag Memorial Hospital Presbyterian and Affiliates

Consolidating Statement of Operations

Year Ended August 31, 2007

	Hospital & NHC	Other Entities	Foundation	(A) Eliminations	Consolidated
	<i>(in thousands)</i>				
Unrestricted operating revenues:					
Net patient service	\$ 508,475	\$ 11,722	\$ —	\$ —	\$ 520,197
Capitation	80,267	—	—	—	80,267
Other	39,534	12,782	6,700	(8,674)	50,342
Total unrestricted operating revenues	628,276	24,504	6,700	(8,674)	650,806
Operating expenses:					
Salaries and employee benefits	286,129	12,142	—	—	298,271
Professional fees	8,075	5	—	—	8,080
Provision for doubtful accounts	18,546	427	—	—	18,973
Supplies	104,037	2,917	—	—	106,954
Utilities	7,953	375	—	—	8,328
Insurance	2,326	149	—	—	2,475
Lease rental	7,791	1,516	—	—	9,307
Other	22,002	1,569	12,994	(8,674)	27,891
Purchased services	71,498	3,326	—	—	74,824
Depreciation and amortization	40,542	1,455	—	—	41,997
Interest	24,317	68	—	—	24,385
Total operating expenses	593,216	23,949	12,994	(8,674)	621,485
Income (loss) from operations	35,060	555	(6,294)	—	29,321
Other income (expense):					
Investment income, net	95,027	172	3,916	—	99,115
Other nonoperating losses and expenses	(7,174)	121	—	(392)	(7,445)
Other income (expense), net	87,853	293	3,916	(392)	91,670
Excess of revenues over expenses before minority interest	122,913	848	(2,378)	(392)	120,991
Minority interest	—	—	—	(457)	(457)
Excess of revenues over expenses	122,913	848	(2,378)	(849)	120,534
Transfers from Hoag Hospital Foundation	6,903	—	(6,903)	—	—
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	—	—	11,009	—	11,009
Equity contributions	—	2,000	—	(2,000)	—
Equity distributions	—	(2,700)	—	2,700	—
Change in unrealized loss on interest rate swap	(356)	—	—	—	(356)
Increase in unrestricted net assets	\$ 129,460	\$ 148	\$ 1,728	\$ (149)	\$ 131,187

(A) To eliminate intercompany accounts.

APPENDIX B-2

**HOAG MEMORIAL HOSPITAL PRESBYTERIAN AND AFFILIATES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION**

Hoag Memorial Hospital Presbyterian and Affiliates
Six-Month Periods Ended February 29, 2008 and February 28, 2007

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APPENDIX B-2

**CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**

Hoag Memorial Hospital Presbyterian and Affiliates

Six-Month Periods Ended February 29, 2008 and February 28, 2007

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Hoag Memorial Hospital Presbyterian and Affiliates
Condensed Consolidated Balance Sheets
(Unaudited, In Thousands)

	February 29 2008	August 31 2007
Assets		
Current assets:		
Cash and equivalents	\$ 29,397	\$ 103,463
Patient accounts receivable, net of allowance for doubtful accounts of \$20,025 in 2008 and \$16,000 in 2007	77,543	65,392
Investments and other current assets	61,457	27,063
Total current assets	168,397	195,918
Assets limited as to use:		
Board designated for capital improvements	991,345	937,885
For endowments	78,598	73,329
Under indenture agreements	145,763	150,315
Total assets limited as to use	1,215,706	1,161,529
Donations and bequests pledged, net of allowance for doubtful accounts and unamortized discount of \$5,872 in 2008 and \$5,888 in 2007	55,870	48,637
Property and equipment, net	691,340	660,178
Other assets	18,121	16,834
Total assets	\$ 2,149,434	\$ 2,083,096
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 17,976	\$ 24,396
Accrued expenses and other current liabilities	58,338	58,598
Total current liabilities	76,314	82,994
Bonds payable	622,950	622,950
Estimated malpractice claims and liability to annuitants and others	13,740	13,352
Other long-term liabilities	17,252	5,955
Total liabilities	730,256	725,251
Net assets:		
Unrestricted	1,285,943	1,249,369
Temporarily restricted	90,294	81,167
Permanently restricted	42,941	27,309
Total net assets	1,419,178	1,357,845
Total liabilities and net assets	\$ 2,149,434	\$ 2,083,096

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates
Condensed Consolidated Statements of Operations
(Unaudited, In Thousands)

	Six-month Periods Ended	
	February 29	February 28
	2008	2007
Unrestricted operating revenues:		
Net patient service	\$ 281,968	\$ 251,715
Capitation	35,772	38,584
Other	27,522	30,053
Total unrestricted operating revenues	<u>345,262</u>	<u>320,352</u>
Operating expenses:		
Salaries and employee benefits	150,172	145,059
Supplies	56,028	51,246
Purchased services	35,943	35,557
Depreciation and amortization	22,338	20,793
Professional fees	4,258	4,133
Provision for doubtful accounts	11,210	10,445
Rent, utilities, insurance and other	29,300	24,748
Interest	13,257	9,280
Total operating expenses	<u>322,506</u>	<u>301,261</u>
Income from operations	<u>22,756</u>	<u>19,091</u>
Other income (expense):		
Investment income, net	9,849	55,660
Other non-operating gain (loss)	1,254	(737)
Other income, net	<u>11,103</u>	<u>54,923</u>
Excess of revenues over expenses before minority interest	<u>33,859</u>	<u>74,014</u>
Minority interest	<u>6</u>	<u>(310)</u>
Excess of revenues over expenses	<u>33,865</u>	<u>73,704</u>
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	2,353	2,589
Unrealized gain from interest rate swap	356	—
Increase in unrestricted net assets	<u>\$ 36,574</u>	<u>\$ 76,293</u>

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates
Condensed Consolidated Statements of Changes in Net Assets
(Unaudited, In Thousands)

	Six-month Periods Ended	
	February 29	February 28
	2008	2007
Unrestricted net assets:		
Excess of revenues over expenses	\$ 33,865	\$ 73,704
Net assets released from restrictions used for purchase of property and equipment and specific program purposes	2,353	2,589
Unrealized gain from interest rate swap	356	—
Increase in unrestricted net assets	<u>36,574</u>	<u>76,293</u>
Temporarily restricted net assets:		
Contributions	13,863	8,177
Investment (loss) income	(2,664)	3,535
Change in value of split-interest agreements, annuity payments and expenses	281	349
Net assets released from restrictions	(2,353)	(2,589)
Increase in temporarily restricted net assets	<u>9,127</u>	<u>9,472</u>
Permanently restricted net assets:		
Contributions	15,633	125
Change in value of split-interest agreements	(1)	(1)
Income on long-term investments	—	1
Increase in permanently restricted net assets	<u>15,632</u>	<u>125</u>
Increase in net assets	<u>61,333</u>	<u>85,890</u>
Net assets, beginning of the period	<u>1,357,845</u>	<u>1,196,646</u>
Net assets, end of the period	<u><u>\$ 1,419,178</u></u>	<u><u>\$ 1,282,536</u></u>

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates
Condensed Consolidated Statements of Cash Flows
(Unaudited, in Thousands)

	Six-month Periods Ended	
	February 29 2008	February 28 2007
Cash flows from operating activities		
Increase in net assets	\$ 61,333	\$ 85,890
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	22,338	20,793
Provision for doubtful accounts	11,210	10,445
Net (gain) loss on disposition of property and equipment	(904)	6
Temporarily restricted contributions	(19,333)	(11,299)
Permanently restricted contributions	(10,819)	(2,121)
Unrealized gain from interest rate swap	(356)	—
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(23,361)	(14,330)
Investments and other current assets	(34,394)	(5,746)
Board designated assets and endowments	(58,729)	(58,427)
Donations and bequests pledged	(7,233)	4,147
(Decrease) increase in:		
Accounts payable	(6,420)	(5,207)
Accrued expenses and other current liabilities	(260)	(12,665)
Estimated malpractice claims and liability to annuitants and others	388	900
Net cash (used in) provided by operating activities	(66,540)	12,386
Cash flows from investing activities		
Assets under indenture agreement held by trustee	4,552	20,537
Increase in other assets	(1,287)	(646)
Purchase of property and equipment, net	(52,596)	(24,602)
Net cash used in investing activities	(49,331)	(4,711)
Cash flows from financing activities		
Decrease in other long-term liabilities	11,653	1,660
Proceeds from temporarily restricted contributions	19,333	11,299
Proceeds from permanently restricted contributions	10,819	2,121
Net cash provided by financing activities	41,805	15,080
Net (decrease) increase in cash and equivalents	(74,066)	22,755
Cash and equivalents, beginning of the period	103,463	46,678
Cash and equivalents, end of the period	\$ 29,397	\$ 69,433

See accompanying notes.

Hoag Memorial Hospital Presbyterian and Affiliates
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Organization

Hoag Memorial Hospital Presbyterian (the Hospital) is a not-for-profit corporation operating a general acute care hospital in Newport Beach, California. The Hospital provides inpatient, outpatient and emergency services for residents of Orange County, California.

Hoag Hospital Foundation (the Foundation) is a not-for-profit corporation which raises funds to support the Hospital. The Hospital is the sole voting corporate member of the Foundation.

Hoag Practice Management, Inc. (HPMI) is a for-profit taxable California corporation that primarily provided management and billing services to medical offices that provide physician health care services to patients in the Hospital's service area. The Hospital sold substantially all of the assets of HPMI to a third party effective December 31, 2007. HPMI is wholly owned by the Hospital.

Coastal Physicians Purchasing Group, Inc. (Coastal Physicians) is a taxable California non-profit corporation that primarily serves as a purchasing co-operative for physicians. The Hospital exerts significant influence over Coastal Physicians.

Bluff View LLC (Bluff View) and Newport Healthcare Center LLC (NHC) are wholly-owned subsidiaries of the Hospital that acquire, develop and manage property.

The Hospital has an approximately 99% ownership in a joint venture, Newport Imaging Center LP (NIC), over which it exerts significant influence. NIC operates imaging Centers in Orange County, California.

The Hospital has a 57% ownership interest in a joint venture, Newport Beach Lido Surgery Center LLC (Lido Surgery), over which it exerts significant influence. Lido Surgery operates an outpatient surgery center near the hospital.

The Hospital has a 51% ownership interest in a joint venture, Hoag Endoscopy Center LLC (Hoag Endoscopy), over which it exerts significant influence. Hoag Endoscopy is in the development stage of what is planned to be an endoscopic surgery center near the hospital.

Consolidation and Interim Financial Information

The unaudited condensed consolidated financial statements include the accounts of the Hospital, the Foundation, HPMI, Coastal Physicians, Bluff View, NHC, NIC, Lido Surgery and Hoag Endoscopy (collectively, the Organization). In the opinion of management, all adjustments considered necessary for a fair representation of the results as of the date and for the interim periods presented, which consists solely of normal recurring adjustments, have been included. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the current interim period are not necessarily indicative of the results for the entire year ending August 31, 2008.

The unaudited condensed consolidated interim financial statements have been prepared under the assumption that the users of the interim financial data have either read or have access to the audited consolidated financial statements for the fiscal year ended August 31, 2007. Accordingly, certain disclosures that would substantially duplicate the disclosures contained in the August 31, 2007 audited consolidated financial statements have been omitted. These unaudited condensed consolidated interim

Hoag Memorial Hospital Presbyterian and Affiliates
Notes to Condensed Consolidated Financial Statements (Unaudited)

financial statements should be read in conjunction with our August 31, 2007 audited consolidated financial statements included in Appendix B-1 to the Official Statement.

Use of Estimates

The preparation of the Organization's unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principle

Effective September 1, 2007, the Organization adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," as amended by FASB Staff Position No. 48-1 ("FIN 48"). The adoption of FIN 48 did not have a material effect on the financial statements of the Organization.

2. Functional Expenses

The Organization provides general health care services to residents within its service areas. Expenses relating to providing these services are as follows for the six-month periods ended February 29, 2008 and February 28, 2007:

	2008	2007
Health care services	\$ 186,262	\$ 172,659
General and administrative	122,987	119,322
Interest	13,257	9,280
	<u>\$ 322,506</u>	<u>\$ 301,261</u>

3. Subsequent Events

Redemption

The Hospital entered into a \$70 million revolving credit facility with its bank on April 7, 2008, and then used proceeds drawn on that credit facility to redeem all Series 2005C Bonds totaling \$70 million. The Organization expects to repay the principal amount of this loan with a portion of the proceeds from a new bond issuance in May, 2008.

Redesign of Building Construction

The Hospital is currently reviewing alternative designs for the construction of a building that management believes will likely result in the write-down of previously capitalized design costs totaling approximately \$21 million. The nature of any design changes in addition to the overall project will ultimately be subject to the approval of the Hospital Board of Directors. As the outcome is not yet known, no write-down has been recorded in the accompanying condensed consolidated interim financial statements in connection with this matter. The outcome of this matter is likely to be known within the current fiscal year.

Potential Affiliations

The Hospital has entered into exclusive negotiations with respect to two components of a specific transaction which contemplates establishment of a specialty hospital within the Hospital's service area, ultimately consisting both of physicians currently affiliated with the Hospital and others. In the aggregate,

Hoag Memorial Hospital Presbyterian and Affiliates
Notes to Condensed Consolidated Financial Statements (Unaudited)

this transaction could be financially and operationally material to the Hospital. First, the Hospital is in negotiations to lease a free-standing facility located within the Hospital's service area, suitable for use as a specialty hospital. Second, the Hospital is in negotiations to purchase a majority stake in an existing, for-profit outpatient specialty surgery center which could ultimately form a part of the specialty hospital. Negotiations for the facility contemplate a long-term lease as well as certain short-term and long-term purchase options. In addition, a significant capital investment may be required in connection with the establishment of the specialty hospital and acquisition of the specialty surgery center entity. Current plans contemplate creation of a new joint venture entity of which the Hospital would own a controlling interest.

The terms and conditions of the acquisition of the facility and the surgery center group are not defined and will ultimately be subject to approval of the Hospital Board of Directors and other conditions, including compliance with applicable financial covenant requirements. There can be no assurance that the Hospital will successfully complete either transaction or on what terms, or the ultimate impact on the Hospital or the Organization. If completed, however, it is likely that some existing patient revenues of the Organization would be transferred to the new specialty hospital entity, and that the Organization may guarantee significant financial elements of the transaction.

4. Commitments and Contingencies

Legal Matters

The Organization is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's future financial position or results of operations.

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture, Supplement No. 5, the Bond Indenture and the Loan Agreement which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to each of said documents for a full and complete statement of their provisions.

Definitions of Certain Terms

The following is a summary of certain terms used in this APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS. All capitalized terms not defined in this Summary of Principal Documents or elsewhere in this Official Statement, have the meanings set forth in the Master Indenture or the Bond Indenture.

Terms used in the Summary of Master Indenture and Supplement No. 5

“Annual Debt Service” means for each Fiscal Year the sum (without duplication) of (1) the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Credit Group then Outstanding and (2) the aggregate amount of Master Indenture Obligation Payments scheduled to become due and payable in such Fiscal Year (in either case by scheduled maturity, acceleration, mandatory redemption or otherwise), less any amounts of such principal, interest or Master Indenture Obligation Payments to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal, interest or Master Indenture Obligation Payments; provided that if a Financial Products Agreement has been entered into by any Credit Group Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made as described in this clause result in a number less than zero being included in the calculation of Annual Debt Service.

“Authorized Representative” means with respect to each Credit Group Member, its chairman or vice chairman of the board, president, chief executive officer, chief financial officer, or any other person designated as an Authorized Representative of such Credit Group Member by a Certificate of that Credit Group Member signed by its chairman or vice chairman of the board, president, chief executive officer, or chief financial officer and filed with the Master Trustee.

“Balloon Indebtedness” means Long-term Indebtedness, twenty-five percent (25%) or more of the principal of which (calculated as of the date of issuance) becomes due during any period of twelve (12) consecutive months if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption prior to such 12-month period.

“Bond Indenture” means that certain bond indenture relating to the Bonds, between the City and the Bond Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Bond Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, and any successor to its duties or co-trustee under the Bond Indenture.

“Bonds” means City of Newport Beach Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008D, Series 2008E and Series 2008F.

“Book Value” means, when used in connection with Property, Plant and Equipment or other Property of any Credit Group Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Credit Group Member and in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Credit Group, means the aggregate of the values so determined with respect to such Property of each Credit Group Member determined in such a way that no portion of such value of Property of any Credit Group Member is included more than once.

“Certificate”, “Statement”, “Request”, “Consent” or “Order” of any Credit Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Credit Group Member by its Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument.

“City” means the City of Newport Beach, California, a charter city and political subdivision of the State of California.

“Completion Indebtedness” means any Long-term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

“Controlling Member” means the Obligated Group Member designated by the Credit Group Representative to establish and maintain control over a Designated Affiliate.

“Credit Group” or “Credit Group Members” means all Obligated Group Members and Designated Affiliates.

“Credit Group Representative” means the Corporation or such other Obligated Group Member (or Obligated Group Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by the Corporation or a successor Credit Group Representative.

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

“Default” means an event that, with the passage of time or the giving of time or both, would become an Event of Default.

“Designated Affiliate” means any Person which has been so designated by the Credit Group Representative in accordance with the Master Indenture so long as such Person has not been further designated by the Credit Group Representative as no longer being a Designated Affiliate in accordance with the Master Indenture.

“Event of Default” means any of the events specified as such in the Master Indenture.

“Fair Market Value,” when used in connection with Property, means the fair market value of such Property as determined by either:

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a “Member of the Appraisal Institute” and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price

deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

(2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(3) an officer of the Credit Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Trustee) if the fair market value of such Property is less than or equal to the greater of \$1,000,000 or 2.5% of Cash and Equivalents as shown on the most recent audited financial statements of the Credit Group Members.

"Financial Products Agreement" means any interest rate exchange agreement, hedge or similar arrangement, including, *inter alia*, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis, identified to the Master Trustee in a Certificate of the Credit Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider.

"Financial Product Extraordinary Payments" means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Products Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Products Agreement, which payments are not Financial Product Payments.

"Financial Product Payments" means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Products Agreement.

"Financial Product Receipts" means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Products Agreement.

"Fiscal Year" means the period beginning on September 1 of each year and ending on the next succeeding August 31, or any other twelve-month period designated by the Credit Group Representative as the fiscal year of the Credit Group.

"Governing Body" means, when used with respect to any Credit Group Member, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Credit Group Member are vested, except for those powers reserved to the corporate membership of such Credit Group Member by the articles of incorporation or bylaws of such Credit Group Member.

"Government Issuer" means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

"Government Obligations" means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency; (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

“Gross Receivables” means, collectively, the following described Property, whether owned or existing at the time the Master Indenture became effective or thereafter acquired or arising and wherever located: (a) all receipts, revenues, income and other moneys, including, without limitation, contributions, gifts, grants, bequests and pledges, whether in the form of cash or other Property, and all rights to receive the same, whether in the form of Accounts, Bank Accounts, Contract Rights or General Intangibles and Related Rights and any insurance on the foregoing of each Member of the Obligated Group; (b) except as specifically applied in Exhibit A to Supplement No. 1, all moneys and securities held from time to time by the Master Trustee under the Master Indenture (excluding money or securities held in escrow by the Master Trustee pursuant to the Section of the Master Indenture related to satisfaction and discharge of the Master Indenture; and (c) all proceeds, cash proceeds, cash equivalents, replacements and additions to, substitutions for and accessions of any and all Property described in the immediately preceding clauses (a) and (b); but excluding any of the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to an object or purpose which precludes the use by a Member of the Obligated Group thereof for payment of Required Payments.

“Guaranty” means all loan commitments and all obligations of any Credit Group Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person which would, if such other Person were a Credit Group Member, constitute Indebtedness or a Financial Product Payment or Financial Product Extraordinary Payment.

“Holder” means the registered owner of any Master Indenture Obligation in registered form or the bearer of any Master Indenture Obligation in coupon form which is not registered or is registered to bearer.

“Income Available for Debt Service” means, as to any period of time, the combined excess of revenues over expenses (or, in the case of for-profit Credit Group Members, net income after taxes) of the Credit Group Members for such period (including any realized investment income and losses), to which shall be added depreciation, amortization, transfers from Hoag Hospital Foundation and interest (and Master Indenture Obligation Payments to the extent that such Master Indenture Obligation Payments are treated as an expense during such period of time in accordance with generally accepted accounting principles), but not bad debt expenses, provided that no such determination shall include (1) any gain or loss resulting from (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) any discontinued operations or (d) adjustments to the Book Value of assets or liabilities resulting from changes in generally accepted accounting principles, (2) unrealized gains or losses on marketable securities, (3) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, (4) unrealized gains or losses from the write-down, reappraisal or revaluation of assets including investments for “other than temporary” declines in Book Value, or (5) any extraordinary gains or losses.

“Indebtedness” means any Guaranty (other than any Guaranty by any Credit Group Member of Indebtedness of any other Credit Group Member) and any obligation of any Credit Group Member (a) for borrowed money, (b) with respect to leases which are considered capital leases or (c) under installment sale agreements, in each case as determined in accordance with generally accepted accounting principles; provided, however, that if more than one Credit Group Member shall have incurred or assumed a Guaranty of a Person other than a Credit Group Member, or if more than one Credit Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time. Financial Products Agreements shall not constitute Indebtedness.

“Independent Consultant” means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Credit Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Credit Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Credit Group or facilities of the type or types operated by the Credit Group and having the skill and experience necessary to render the particular opinion or report required by the provision of the Master Indenture in which such requirement appears.

“Industry Restrictions” means federal, state or other applicable governmental laws or regulations, including conditions imposed specifically on the Credit Group Members or the Credit Group Members’ facilities, or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Credit Group Members.

“Insurance Consultant” means a Person (which may be an insurance broker or agent of a Credit Group Member) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Credit Group Member (other than the agreement pursuant to which such Person is retained) and (3) is not connected with any Credit Group Member as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the Credit Group Representative, qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

“Insured Financial Product Agreement” means any Financial Products Agreement wherein the Financial Product Payments are insured under a swap insurance policy.

“Insured Financial Product Payments” means any payment obligation of the Members of the Obligated Group pursuant to an Insured Financial Product Agreement that is insured as to timely payment pursuant to the terms of the swap insurance policy insuring the Insured Financial Product Agreement.

“Lien” means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property of an Obligated Group Member or, while the Gross Receivables pledge is in effect, Gross Receivables of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding liens applicable to Property in which an Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of that Obligated Group Member.

“Loan Agreement” means that certain loan agreement relating to the Bonds, between the City and the Credit Group Representative, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

“Long-Term Indebtedness” means Indebtedness other than Short-Term Indebtedness.

“Master Indenture” means the Master Indenture, between the Corporation, Newport Healthcare Center LLC, a California limited liability company, the sole corporate member of which is the Corporation, and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Master Indenture Obligation” means any obligation of the Obligated Group issued pursuant to the Master Indenture, as a joint and several obligation of each Obligated Group Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Products Agreements or leases. Reference to a Series of Master Indenture Obligations or to Master Indenture Obligations of a Series means Master Indenture Obligations or Series of Master Indenture Obligations issued pursuant to a single Related Supplement.

“Master Indenture Obligation Payments” means payments (however designated) required under any Master Indenture Obligation then Outstanding which does not constitute Indebtedness.

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, and, subject to the limitations contained in the Master Indenture, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created under the Master Indenture.

“Maximum Annual Debt Service” means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, (i) one hundred percent (100%) of the Credit Group Members’ monetary liability under the Guaranty which has been drawn upon shall be included in the calculation of Annual Debt Service for two Fiscal Years thereafter and (ii) otherwise, there shall be included in the calculation of Annual Debt Service a percentage of the monetary liability under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose debt is guaranteed by the Credit Group Member (calculated as if such Person were a Credit Group Member), over the Maximum Annual Debt Service of such Person (calculated as if such Person were a Credit Group Member) (the “Ratio”). If the Ratio is less than 1.10, one hundred percentage of such monetary liability shall be included in the calculation of Annual Debt Service. If the Ratio is greater than or equal to the values set forth below, the applicable percentage of such monetary liability shall be included in the calculation of Annual Debt Service, as follows:

Ratio	Percentage of Monetary Liability to be Included
1.10 or greater	75%
1.50 or greater	50%
2.00 or greater	20%

(b) if interest on Long-term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments or Financial Product Receipts are determined pursuant to a variable rate formula), the interest rate on such Long-term Indebtedness (or the variable rate formula for such Financial Product Payments or Financial Product Receipts) (1) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness is subject to a Financial Products Agreement that effectively converts the interest rate on such Long-Term Indebtedness to a fixed rate of interest, the effective fixed rate of interest specified in such Financial Products Agreement (taking into account all Financial Product Payments relating thereto) during the stated term of such Financial Products Agreement and (ii), otherwise, a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer and (2) for such periods when the average interest rate per annum was in effect for an 18-month period immediately preceding the date of calculation, shall be assumed to be equal to the rate as specified in an Officer’s Certificate (which may be based on data from a firm of nationally recognized investment bankers or a financial advisory firm experienced in such field) as having been in effect for any 12 consecutive calendar months during such 18-month period;

(c) if moneys or Government Obligations have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, to the extent provided for, shall not be included in computations of Maximum Annual Debt Service;

(d) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then current Fiscal Year from sources other than capitalized interest funds held by a trustee or escrow agent for such purpose; and

(e) with respect to Balloon Indebtedness, at the option of the Credit Group Representative, such Balloon Indebtedness shall be treated as Long-term Indebtedness with substantially level debt service over a period of thirty (30) years from the date of incurrence of such Balloon Indebtedness at an interest rate equal to a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer; provided, however, that the entire principal amount of such Balloon Indebtedness shall be included in the calculation of Maximum Annual Debt Service if such calculation is made within twelve months of the maturity of such Balloon Indebtedness.

“Nonrecourse Indebtedness” means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien with no recourse, directly or indirectly, to any other Property of any Credit Group Member.

“Obligated Group” means all Obligated Group Members.

“Obligated Group Member” or “Member” means the Corporation and each other Person that is obligated under the Master Indenture to the extent and in accordance with the provisions of the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

“Officer’s Certificate” means a certificate signed by an Authorized Representative of the Credit Group Representative.

“Opinion of Bond Counsel” means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

“Opinion of Counsel” means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Credit Group Representative.

“Outstanding,” when used with reference to Indebtedness or Master Indenture Obligations, means, as of any date of determination, all Indebtedness or Master Indenture Obligations theretofore issued or incurred and not paid and discharged other than (1) Master Indenture Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms of the Master Indenture, (2) Master Indenture Obligations in lieu of which other Master Indenture Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Master Indenture Obligations unless proof satisfactory to the Master Trustee has been received that any such Master Indenture Obligation is held by a bona fide purchaser, (3) any Master Indenture Obligation held by any Credit Group Member and (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when a Master Indenture Obligation secures an issue of Related Bonds and another Master Indenture Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Master Indenture Obligations shall be deemed Outstanding and the Master Indenture Obligation so deemed to be Outstanding shall be that Master Indenture Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

“Permitted Liens” means and include:

(a) Any judgment lien or notice of pending action against any Credit Group Member so long as judgment or pending action being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not

delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or. with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the Value thereof; and (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof;

(c) Any Lien described in Appendix A of the Master Indenture which is existing on the date of execution thereof or as such Appendix A may be supplemented upon addition of a Credit Group Member with respect to Liens existing on the Property of such additional Credit Group Member, provided that no such Lien (or the amount of Indebtedness or other obligations secured thereby may be increased, extended, renewed or modified to apply to any Property of any Credit Group Member not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(d) Any Lien in favor of the Master Trustee securing all Outstanding Master Indenture Obligations equally and ratably;

(e) Liens arising by reason of good faith deposits with any Credit Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Credit Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Credit Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(g) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(h) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Credit Group Member as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Credit Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants, up to the Fair Market Value of such Property;

(k) Rights of the United States of America (including, without limitation, the Federal Emergency Management Agency ("FEMA")) or the State (including without limitation the Governor's Office of Emergency Services) by reason of FEMA and other federal and State funds made available to any Member under federal or State statutes;

(l) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that (i) the amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness, (ii) the Property securing such Indebtedness is not changed, and (iii) the Obligor with respect to such Indebtedness, whether direct or contingent, is not changed;

(m) Liens granted by a Credit Group Member to another Credit Group Member;

- (n) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions of the Master Indenture;
- (o) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;
- (p) Liens on the Obligated Group Members' accounts receivable securing Indebtedness in an amount not to exceed 30% of the Credit Group Members' net accounts receivable;
- (q) Liens on revenues constituting rentals in connection with any other Lien permitted under the Master Indenture on the Property from which such rentals are derived;
- (r) The lease or license of the use of a part of the Obligated Group Members' facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;
- (s) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Member under a Financial Products Agreement;
- (t) Liens junior to Liens in favor of the Master Trustee;
- (u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;
- (v) UCC financing statements filed with the Secretary of State of the State (or such other office maintaining such records) in connection with an operating lease entered into by any Member in the ordinary course of business so long as such financing statement does not evidence the grant of a Lien other than a Permitted Lien;
- (w) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Member so long as the lease arrangement is in the ordinary course of business of the Member;
- (x) Deposits of Property by any Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;
- (y) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is treated as Indebtedness under generally accepted accounting principles), and other similar obligations incurred in the ordinary course of business of a Member;
- (z) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of a Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);
- (aa) Present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used; and
- (bb) Any other Lien on Property provided that the Value of all Property encumbered by all Liens permitted as described in this clause (bb) does not exceed 30% of the sum of the Value of all Property of the Credit Group Members, calculated at the time of creation of such Lien.

“Person” means an individual, corporation, limited liability company, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Property” means any and all rights, titles and interests in and to any and all property of any Credit Group Member, whether real or personal, tangible or intangible and wherever situated. For purposes of performing certain calculations under the Master Indenture, the Credit Group Representative may treat “total assets” as shown on the Credit Group’s audited financial statements as the Book Value of the Credit Group’s Property.

“Property, Plant and Equipment” means all Property of any Credit Group Member which is considered property, plant and equipment of such Credit Group Member under generally accepted accounting principles.

“Qualified Provider” means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such financial institution or insurance company or corporation (or of the parent or a subsidiary of such financial institution or insurance company or corporation if such parent or subsidiary guarantees or otherwise assures the performance of such financial institution or insurance company or corporation under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company or corporation (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Products Agreement.

“Rating Agency” means Fitch, Inc., Moody’s Investors Service, Inc., Standard & Poor’s, a division of The McGraw-Hill Companies, and any other national rating agency then rating Master Indenture Obligations or Related Bonds.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier, outlook or otherwise.

“Related Bonds” means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to a Credit Group Member in consideration of the execution, authentication and delivery of a Master Indenture Obligation or Master Indenture Obligations to or for the order of such Government Issuer.

“Related Bond Indenture” means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds are issued.

“Related Bond Issuer” means the Government Issuer of any issue of Related Bonds.

“Related Bonds” means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to a Credit Group Member in consideration of the execution, authentication and delivery of a Master Indenture Obligation or Master Indenture Obligations to or for the order of such Government Issuer.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

“Related Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

“Required Payment” means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Insured Financial Product Payments, Uninsured Financial Product Payments, Financial Product Extraordinary Payments and the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture, required to be made by any Obligated Group Member, pursuant to any Related Supplement or any Master Indenture Obligation.

“Responsible Officer” means, with respect to the Master Trustee, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any trust officer, any assistant trust officer or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject.

“Senior Financial Product Payment” means any payment obligation of the Members of the Obligated Group due pursuant to a Financial Products Agreement other than a Subordinate Financial Product Payment.

“Short-Term Indebtedness” means all Indebtedness having an original maturity less than or equal to one year and not renewable at the option of a Credit Group Member for a term greater than one year from the date of original incurrence or issuance unless, in the case of Indebtedness with a maturity or renewal at the option of a Credit Group Member with a term greater than one year, by the terms of such Indebtedness, no Indebtedness is permitted to be Outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year.

“State” means the State of California.

“Subordinated Indebtedness” means Long-Term Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Credit Group Members under the Master Indenture.

“Supplement No. 1” means the Supplemental Master Indenture for Obligation No. 1, dated as of May 1, 2007, between the Master Trustee and the Corporation.

“Surviving Entity” has the meaning set forth in the Master Indenture.

“Total Revenues” means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, premium revenue and other revenue and nonoperating gains (losses), as shown on the audited financial statements of the Credit Group for the most recent Fiscal Year (and as shown on the unaudited financial statements of the Credit Group if required under the Master Indenture), determined in accordance with generally accepted accounting principles.

“Transaction Test” means, with respect to any specified transaction, that either (1) no Event of Default or Default then exists and the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as if such transaction had occurred on the first day of such Fiscal Year, would be greater than the actual Debt Service Coverage Ratio for such Fiscal Year or at least 2.5:1.0 or (2) no Event of Default or Default then exists, the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as if such transaction had occurred on the first day of such Fiscal Year, would be at least equal to 75% of the actual Debt Service Coverage Ratio for such Fiscal Year, and, following such transaction, the Credit Group could satisfy the conditions for the issuance of \$1.00 of additional Long-term Indebtedness set forth in the Master Indenture.

“UCC” means the Uniform Commercial Code of the State, as amended from time to time.

“Uninsured Financial Product Agreement” means a Financial Products Agreement other than an Insured Financial Product Agreement.

“Uninsured Financial Product Payment” means any payment obligation of the Members of the Obligated Group due pursuant to a Financial Products Agreement other than Insured Financial Product Payments.

“Value,” when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Credit Group Representative, at either its Fair Market Value or its Book Value.

Terms used in the Summary of Bond Indenture and Loan Agreement

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged or reimbursement for administrative or other expenses incurred by the City or the Bond Trustee, including Additional Payments.

“Alternate Credit Facility” means an irrevocable, direct-pay letter of credit, insurance policy or similar credit facility, providing for the payment of principal of and interest on Bonds of any Series when due issued by a commercial bank or financial institution delivered or made available to the Bond Trustee in accordance with the Loan Agreement, , such Alternate Credit Facility may replace the Credit Facility then in effect for any Series of Bonds.

“Alternate Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility providing for the purchase of Bonds of any Series upon their optional or mandatory tender, in accordance with the provisions of the Bond Indenture, and issued by a commercial bank or financial institution delivered or made available to the Tender Agent in accordance with the Loan Agreement, which replaces the Liquidity Facility then in effect for such Bonds, if any.

“Authorized Representative” means with respect to the Corporation in whatever capacity it may then be acting, the chairman of its governing body, its chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by the chairman of its governing body, its chief executive officer or its chief financial officer, and filed with the Bond Trustee.

“Available Moneys” means, (a) with respect to any Series of Bonds for which a Credit Facility is in effect, (i) moneys drawn under the Credit Facility which at all times since their receipt by the Bond Trustee or the Tender Agent were held in a separate segregated account or accounts or subaccount or subaccounts in which no moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Bond Trustee or the Tender Agent by the Corporation and have been on deposit with the Bond Trustee or the Tender Agent for at least 124 days (or, if paid to the Trustee or the Tender Agent by an “affiliate,” as defined in Bankruptcy Code §101(2), of the Corporation, 366 days) during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition; and (b) otherwise, “Available Moneys” means any moneys deposited with the Bond Trustee or the Tender Agent.

“Bank” means Bank of America, N.A., or its successors.

“Bankruptcy Code” means Title 11 of the United States Code, as amended, and any successor statute.

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

“Bond Indenture” means the Bond Indenture pursuant to which the Bonds are to be issued, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

“Bond Purchase Fund” means the fund by that name established pursuant to the Bond Indenture.

“Bonds” means the City's Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008D, Series 2008E and Series 2008F authorized by, and at any time Outstanding pursuant to, the Bond Indenture.

“Bond Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States, or its successor, as Bond Trustee under the Bond Indenture.

“Business Day” means any day other than a Saturday, Sunday or a day on which banks located in (a) the State of California or the State of New York, (b) the city or cities in which the principal corporate trust office of the Trustee and the Tender Agent is located, (c) the city or cities in which the office of the Credit Facility Provider and/or Liquidity Facility Provider at which drawings under the Credit Facility and/or Liquidity Facility are to be presented is located, and (d) the city in which the principal office of each Remarketing Agent is located, are required or authorized to remain closed or on which The New York Stock Exchange is closed.

“Certificate,” “Statement,” “Request” and “Requisition” of the City or the Corporation means, respectively, a written certificate, statement, request or requisition signed in the name of the City by its Mayor, City Clerk, or such other person as may be designated and authorized to sign for the City in writing to the Bond Trustee, or in the name of the Corporation by an Authorized Representative of the Corporation. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Bond Indenture, each such instrument shall include the statements provided for in the Bond Indenture.

“City” means the City of Newport Beach, a municipal corporation and charter city duly organized and existing under a freeholder's charter under the Constitution and the laws of the State of California.

“Continuing Disclosure Certificate” means, initially, (i) the continuing disclosure certificate executed by the Corporation with respect to the Bonds on the Date of Issuance pursuant to the Loan Agreement, and (ii) after termination of the initial Continuing Disclosure Certificate and subsequent Conversion of a Series of Bonds to an Interest Rate Period subject to the continuing disclosure requirement of Rule 15c2-12 promulgated by the Securities and Exchange Commission, any other continuing disclosure certificate executed by the Corporation with respect to such Bonds pursuant to the Loan Agreement and then in effect.

“Conversion” means a conversion of a Series of Bonds from one Interest Rate Period to another Interest Rate Period.

“Corporation” means Hoag Memorial Hospital Presbyterian, a California nonprofit public benefit corporation duly organized and existing under the laws of the State of California or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of all or substantially all assets permitted under the Master Indenture.

“Credit Facility” means the Letter of Credit or, in the event of the delivery or availability of any Alternate Credit Facility, such Alternate Credit Facility. The initial Credit Facility is also a Liquidity Facility hereunder.

“Credit Facility Fund” means, the fund by that name established pursuant to the Bond Indenture.

“Credit Facility Provider” means initially the Bank, and, upon the effectiveness of an Alternate Credit Facility with respect to any Series of Bonds, shall mean the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate Credit Facility. The initial Credit Facility Provider is also a Liquidity Facility Provider hereunder.

“Credit Facility Provider Failure” means a failure of the Credit Facility Provider to pay a properly presented and conforming draw or request for advance under the related Credit Facility or the filing or commencement of any bankruptcy or insolvency proceedings by or against such Credit Facility Provider or if such

Credit Facility Provider shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the subject Credit Facility.

“Date of Issuance” means the date on which the Bonds are issued by the City.

“Eligible Bonds” means any Bonds other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the City or any Member.

“Event of Bankruptcy” means any of the following events:

(i) the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, Obligation No. 5, the Master Indenture or a Reimbursement Agreement, or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the City shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Person) or the City or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, Obligation No. 5, the Master Indenture or a Reimbursement Agreement, or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the City in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding up, or composition or adjustment of debts, of the Corporation (or any such other Person) or the City, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Person) or the City or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Person) or the City under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

“Event of Default” means any of the events specified as such in the Bond Indenture.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the City, the Credit Facility Provider (if any), the Remarketing Agent (if any), the Corporation and the Bond Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and the Bond Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Holder” or “Bondholder,” whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

“Interest Accrual Date” means for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day).

“Interest Payment Date” means with respect to Bonds or any Series of Bonds, for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or if the first Wednesday is not a Business Day, the next succeeding Business Day and with respect to each Bond, the Maturity Date of such Bond.

“Interest Rate Period” means a Weekly Interest Rate Period, a Short-Term Interest Rate Period, a Serial Bond Interest Rate Period or an Auction Period.

“Investment Securities” means any of the following that at the time are legal investments under the laws of the State of California for moneys held under the Bond Indenture and then proposed to be invested therein:

(a) United States Government Obligations;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America:

- (i) Export-Import Bank;
- (ii) Rural Economic Community Development Administration;
- (iii) U.S. Maritime Administration;
- (iv) Small Business Administration;
- (v) U.S. Department of Housing & Urban Development (PHAs);
- (vi) Federal Housing Administration; and
- (vii) Federal Financing Bank.

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- (i) Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);
- (ii) Obligations of the Resolution Funding Corporation (REFCORP);
- (iii) Senior debt obligations of the Federal Home Loan Bank System; and
- (iv) Senior debt obligations of other government sponsored agencies approved by the Credit Facility Providers (if any).

(d) U.S. dollar denominated deposit accounts, federal fund and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase;

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P and which matures not more than 360 calendar days after the date of purchase;

(f) Investments in money market funds rated "AAAm" or "AAm-G" or better by S&P;

(g) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on irrevocable escrow account or fund (the "escrow"), in the highest Rating Category of Moody's or S&P or any successors thereto; or

(ii) (a) which are fully secured as to principal, interest and redemption premium, if any, by an escrow consisting only of cash or United States Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (b) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations

described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(h) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

(i) Investment agreements approved in writing by the Credit Facility Provider or Credit Facility Providers (if any) (supported by appropriate opinions of counsel); and

(j) Other forms of investments (including repurchase agreements) approved in writing by the Credit Facility Provider or Credit Facility Providers (if any).

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc. or Lehman Brothers; and

(b) As to certificates of deposit and bankers’ acceptances, the face amount thereof, plus accrued interest thereon.

"Law" means Ordinance No. 85-23 and 84-4 of the City, as now in effect and as it may from time to time be amended or supplemented.

“Letter of Credit” means the irrevocable, direct-pay letter of credit, issued by the Bank pursuant to the initial Reimbursement Agreement.

“Liquidity Facility” means the Letter of Credit and, in the event of the delivery or availability of an Alternate Liquidity Facility for any Series of Bonds, such Alternate Liquidity Facility. Any Liquidity Facility must be approved by the Credit Facility Provider, if any with respect to such Series. The same instrument may be a Liquidity Facility and a Credit Facility hereunder. The initial Credit Facility is also a Liquidity Facility hereunder. From time to time there could be more than one Liquidity Facility with respect to any Series of Bonds.

“Liquidity Facility Bonds” means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

“Liquidity Facility Provider” means initially, the Bank, and upon effectiveness of an Alternate Liquidity Facility with respect to any Series of Bonds, the commercial bank or other financial institution acceptable to the Credit Facility Provider (if any) for such Series of Bonds, issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect. The initial Liquidity Facility Provider is also a Credit Facility Provider hereunder.

“Loan Agreement” means that certain loan agreement by and between the City and the Corporation, Agreement entered into in connection with the issuance and sale of the Bonds, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

“Loan Default Event” means any of the events specified in the Loan Agreement.

“Loan Repayments” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“Mandatory Credit/Liquidity Tender” means the mandatory tender of the Bonds of a Series pursuant to the Bond Indenture upon receipt by the Bond Trustee of written notice from one or more Credit Facility Providers or Liquidity Facility Providers, as the case may be, that an event with respect to the applicable Credit Facility or Liquidity Facility has occurred which requires or gives the applicable Credit Facility Provider(s) or Liquidity Facility Provider(s) the option to terminate such Credit Facility or Liquidity Facility upon the designated notice. Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

“Master Indenture” means that certain master trust indenture, pursuant to which Obligation No. 5 will be issued, between the Corporation, Newport Healthcare Center LLC, a California limited liability company, the sole corporate member of which is the Corporation, and the Master Trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America as successor master trustee or its successor, as master trustee under the Master Indenture.

“Maturity Date” means the date of the last scheduled principal payment on a Bond.

“Maximum Interest Rate” means the lesser of 12% per annum and the Maximum Lawful Rate.

“Maximum Lawful Rate” means the Maximum Interest Rate on the relevant obligation permitted by applicable law.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City, the Credit Facility Provider (if any), and the Bond Trustee.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the City, the Bond Trustee or the Corporation), selected by the Bond Trustee and not objected to by the City or the Credit Facility Provider (if any).

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Bond Indenture, including Bonds (or portions of Bonds) referred to in the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Office” means, as appropriate, the designated corporate trust office of the Bond Trustee or the Tender Agent.

“Purchase Date” means the date on which Bonds are to be purchased following optional or mandatory tender in accordance with the Bond Indenture.

“Purchase Price” of any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date, as further set forth in the Bond Indenture.

“Purchased Bonds” has the meaning set forth in the Bond Indenture.

“Rating Agency” means S&P and/or Moody’s, as the context requires.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Bond Indenture.

“Reimbursement Agreement” means (i) that certain Letter of Credit Agreement, among the Corporation, the Bank, certain Lenders (as defined therein) and the Bank, as Administrative Agent pursuant to which the Letter of Credit is issued by the Bank, and (ii) if an Alternate Credit Facility and/or an Alternate Liquidity Facility is issued with respect to any Series of Bonds, any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement relating to such Alternate Credit Facility and/or Alternate Liquidity Facility.

“Remarketing Agent” means, with respect to any Series of Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with the Bond Indenture.

“Revenues” means all amounts received by the City or the Bond Trustee for the account of the City pursuant to or with respect to the Loan Agreement or the applicable Master Indenture Obligation, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, moneys drawn under a Credit Facility and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City and the Bond Trustee.

“Series,” when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds as in the Bond Indenture provided.

“SIFMA Swap Index” means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) (“BMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Bond Trustee and effective from such date.

“Sinking Fund Installment” means the amount required by the Bond Indenture to be paid by the City on any single date for the retirement of Bonds.

“Supplemental Bond Indenture” means any indenture duly authorized and entered into between the City and the Bond Trustee, supplementing, modifying or amending the Bond Indenture; but only if and to the extent that such Supplemental Bond Indenture is specifically authorized under the Master Indenture.

“Tax Agreement” means the Tax Certificate and Agreement delivered by the City and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Tender Agent” means the Tender Agent appointed in accordance with the Bond Indenture.

“United States Government Obligations” means (1) noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and obligations of any agency or instrumentality of the United States of America the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, and (2) any other obligations approved in writing by the Credit Facility Provider (if any).

“Weekly Interest Rate” means a variable interest rate borne by a Series of Bonds and established in accordance with the Bond Indenture.

“Weekly Interest Rate Period” means each period with respect to a Series of Bonds during which a Weekly Interest Rate is in effect for such Bonds.

MASTER INDENTURE

General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group and provides for the security therefor. An Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

The following is a summary of certain provisions of the Master Indenture. This Summary of Principal Documents does not purport to be complete or definitive and reference is made to the Master Indenture for the complete terms thereof.

Designated Affiliates

Transfers from Designated Affiliates. Each Controlling Member covenants and agrees that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Obligated Group Members to comply with the provisions of the Master Indenture.

Designation of Designated Affiliates. The Credit Group Representative by resolution of its Governing Body may from time to time designate Persons as Designated Affiliates. In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate an Obligated Group Member to serve as the Controlling Member for such Designated Affiliate. The Credit Group Representative shall at all times maintain an accurate and complete list of all Persons designated as Designated Affiliates (and of the Controlling Members for such Designated Affiliates) and file such list with the Master Trustee and any Related Bond Issuer that shall request such list in writing annually on or before September 1 of each year.

Each Controlling Member shall cause each of its Designated Affiliates to provide to the Credit Group Representative a resolution of its Governing Body accepting such Person’s designation as a Designated Affiliate and acknowledging the provisions of the Master Indenture which affect the Designated Affiliates. So long as such Person is designated as a Designated Affiliate, the Controlling Member of such Designated Affiliate shall either (i) maintain, directly or indirectly, control of such Designated Affiliate to the extent necessary to cause such Designated Affiliate to comply with the terms of the Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise or (ii) execute and have in effect such contracts or other agreements which the Credit Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Designated Affiliate to comply with the terms of the Master Indenture.

Each Controlling Member covenants and agrees that it will cause each of its Designated Affiliates to comply with any and all directives of the Controlling Member given pursuant to the provisions of the Master Indenture.

Any Person may cease to be a Designated Affiliate (and thus not subject to the terms of the Master Indenture) provided that prior to such Person ceasing to be a Designated Affiliate the Master Trustee receives: (i) a resolution of

the Governing Body of the Credit Group Representative declaring such Person no longer a Designated Affiliate; and (ii) an Officer's Certificate to the effect that immediately following such Person ceasing to be a Designated Affiliate neither a Default, nor an Event of Default would exist.

Membership in the Obligated Group

Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture; and

(b) a Related Supplement executed by the Credit Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member (i) agrees to become an Obligated Group Member, and (ii) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Master Indenture Obligations, and (iii) irrevocably appoints the Credit Group Representative as its agent and attorney-in-fact and grants to the Credit Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Master Indenture Obligations or Series of Master Indenture Obligations and to execute and deliver Master Indenture Obligations; and

(c) an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee to the effect that (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of the Master Indenture, (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel in form and substance reasonably satisfactory to the Master Trustee, to the effect that the addition of the proposed new Obligated Group Member (1) will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation; and (2) will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Withdrawal From the Obligated Group

Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, and any Obligated Group Member may be redesignated as a Designated Affiliate, provided that prior to such withdrawal or redesignation the Master Trustee receives:

(a) an Officer's Certificate to the effect that the Credit Group Representative has approved the withdrawal of such Obligated Group Member (and, if applicable, redesignation of such Obligated Group Member as a Designated Affiliate);

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee to the effect that (i) the withdrawal (or redesignation) of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (ii) the withdrawal (or redesignation) of such

Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Authorization and Issuance of Obligations

Authorization of Master Indenture Obligations. Each Obligated Group Member authorizes to be issued from time to time Master Indenture Obligations or Series of Master Indenture Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement.

Issuance of Master Indenture Obligations. From time to time when authorized by the Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture or in a Related Supplement, the Credit Group Representative may authorize the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations by entering into a Related Supplement. The Master Indenture Obligation or the Master Indenture Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Each Related Supplement authorizing the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations shall specify the purposes for which such Master Indenture Obligation or Series of Master Indenture Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Master Indenture Obligations; the date or dates of maturity or other final expiration of the term of such Master Indenture Obligations; the date of issuance of such Master Indenture Obligations; and any other provisions deemed advisable or necessary by the Credit Group Representative. Each Related Supplement authorizing the issuance of a Master Indenture Obligation shall also specify and determine the principal amount of such Master Indenture Obligation (if any) for purposes of calculating the percentage of Holders of Master Indenture Obligations required to take actions or give consents pursuant to the Master Indenture (which, if such Master Indenture Obligation does not evidence or secure Indebtedness, shall be equal to zero). The designation of zero as a principal amount of a Master Indenture Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Master Indenture Obligation.

Particular Covenants of Each Member of the Obligated Group

Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly all Required Payments at the place, on or before the dates and in the manner provided in the Master Indenture, or in any Related Supplement or Master Indenture Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Master Indenture Obligations under the Master Indenture. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Master Indenture Obligation.

Maintenance of Properties, Payment of Indebtedness, Etc. Each Obligated Group Member covenants to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Group Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof;

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Obligated Group Member will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made in due

time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Group Member shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof as set out in clause (b)(ii) of the definition of Permitted Liens;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than obligations, Indebtedness, demands or claims (exclusive of the Master Indenture Obligations issued and Outstanding under the Master Indenture) the validity, amount or collectibility of which is being contested in good faith;

(e) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property; and

(f) use its best efforts to maintain (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) all permits, licenses and other governmental approvals necessary for the operation of its Property.

Against Encumbrances. Each Obligated Group Member covenants that it will not, create, assume or suffer to exist any Lien upon the Property of the Obligated Group, except for Permitted Liens. Each Obligated Group Member further covenants that if such a Lien (other than a Permitted Lien) is created or assumed by any Credit Group Member, it will make or cause to be made effective a provision whereby all Master Indenture Obligations will be secured prior to any obligation secured by such Lien.

Debt Coverage.

(a) After the end of each Fiscal Year, the Credit Group Representative shall compute the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and furnish to the Master Trustee, an Officer's Certificate setting forth the results of such computation. Such computations shall be made on the basis of the audited financial statements of the Obligated Group (no later than one hundred eighty (180) days following the end of such Fiscal Year). The Credit Group Representative covenants that if at the end of such Fiscal Year the Debt Service Coverage Ratio (as calculated from the audited financial statements of the Obligated Group) shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group to increase the Debt Service Coverage Ratio to at least 1.10:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination by the Governing Board of the Credit Group Representative that any such recommendations are either unreasonable or otherwise not in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Credit Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed), the Obligated Group will be deemed to have complied with the covenants set forth in this section for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.10:1.0; provided, however, that an Event of Default shall exist if the Debt Service Coverage Ratio (calculated based on the audited financial statements of the Obligated Group) is less than 1.0:1.0 for any Fiscal Year. Nevertheless, neither the Obligated Group Members shall be excused from taking any action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions described in this subsection (a).

(b) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the Debt Service Coverage Ratio of 1.10:1.00 to be met, then such

ratio shall be reduced to the maximum ratio which the Industry Restrictions would allow the Obligated Group Members to achieve, but in no event less than a ratio of 1.0:1.0.

(c) Notwithstanding the foregoing, the Obligated Group Members may permit the rendering of services or the use of their Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with applicable law or any recommendation for free services that may be made by an Independent Consultant.

Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a “Merger Transaction”) unless:

(a) After giving effect to the Merger Transaction, the successor or surviving entity (in the Master Indenture after, the “Surviving Entity”) is an Obligated Group Member, or the Surviving Entity shall (i) be a corporation or a political subdivision organized and existing under the laws of the United States of America or any state thereof, and (ii) become an Obligated Group Member pursuant to the Master Indenture and, pursuant to the Related Supplement, shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member under the Master Indenture;

(b) The Master Trustee receives an Officer’s Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel, in form and substance reasonably satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation;

(d) The Master Trustee receives an Opinion of Counsel, in form and substance reasonably satisfactory to the Master Trustee, to the effect that (i) all conditions in the Master Indenture relating to Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions described in this section and is liable on all Master Indenture Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Master Indenture Obligations then Outstanding, and (iii) the Merger Transaction will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Master Indenture Obligations and agreements then in effect which affect or relate to any Master Indenture Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

Limitation on Disposition of Assets. Each Obligated Group Member covenants that it will not sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (A) in the ordinary course of business, or (B) as part of a disposition of all or substantially all of its assets as permitted by the Master Indenture), with a net book value in excess of 5% of the net book value of the Property of the Credit Group, unless prior to said disposition:

(i) there shall have been delivered to the Master Trustee an Officer’s Certificate to the effect that such Property is inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group Members; or

(ii) there shall have been delivered to the Master Trustee an Officer’s Certificate to the effect that the Value of the Property so disposed of by the Obligated Group Members in any Fiscal Year pursuant to the provision described in this clause (ii) does not exceed five percent (5%) of Total Revenues; or

(iii) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and such disposition will not impair the structural soundness of the remaining Property and does not materially adversely affect the operations of the Obligated Group; or

(iv) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

Limitation on Indebtedness. Each Obligated Group Member covenants that it will not incur any Indebtedness except that the Obligated Group Members may incur the following Indebtedness:

(a) Long-term Indebtedness, if prior to the date of incurrence of the Long-term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(i) the Debt Service Coverage Ratio for each of the two most recent Fiscal Years with respect to all Long-term Indebtedness then Outstanding at the time of such certification and the additional Long-term Indebtedness to be incurred, but excluding any Long-term Indebtedness to be refunded with the proceeds of said additional Long-term Indebtedness to be incurred, was not less than 1.25:1.00; or

(ii) (A) The Debt Service Coverage Ratio for each of the two most recent Fiscal Years was not less than 1.25:1.0 and (B) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the facilities financed by the newly incurred Indebtedness) with respect to all Long-term Indebtedness projected to be outstanding (including the additional Long-term Indebtedness to be incurred but excluding any Long-term Indebtedness to be refunded with the proceeds of said additional Long-term Indebtedness to be incurred), is not less than 1.25:1.0.

(b) Completion Indebtedness; provided that the Master Trustee receives an Officer's Certificate to the effect that the issuance of such Completion Indebtedness would not increase Maximum Annual Debt Service by more than fifteen percent (15%), calculated without regard to clause (d) of the definition of Maximum Annual Debt Service.

(c) Short-term Indebtedness provided that the provisions described in subsection (a) above are satisfied calculated as if such Short-term Indebtedness was Long-term Indebtedness or:

(i) the total amount of such Short-term Indebtedness shall not exceed fifteen percent (15%) of Total Revenues; and

(ii) the total amount of such Short-term Indebtedness and Indebtedness incurred pursuant to the provision of the Master Indenture described below in clause (g) of this Section then Outstanding shall not exceed twenty-five percent (25%) of Total Revenues; and

(iii) In every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-term Indebtedness is reduced to an amount which shall not exceed three percent (3%) of Total Revenues.

(d) Nonrecourse Indebtedness provided that the proceeds of Nonrecourse Indebtedness shall not be used to acquire or construct facilities which replace existing facilities of the Credit Group Members which generated more than ten percent (10%) of Total Revenues.

(e) Long-term Indebtedness, if such Long-term Indebtedness is issued to refund Long-term Indebtedness and the Master Trustee receives an Officer's Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than ten percent (10%).

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions described in the immediately preceding subsection (c) above, does not, as of the date of incurrence, exceed 25% of Total Revenues.

Insurance Required.

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Credit Group Representative shall employ an Insurance Consultant at least once every two years to review the insurance requirements (including alternative risk management programs and self-insurance programs) of the Members. If the Insurance Consultant makes recommendations for a change in the insurance coverage required (as described in subsection (a)), the Obligated Group Members shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Credit Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group Members. In lieu of maintaining insurance coverage which the Governing Body of the Credit Group Representative deems necessary, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of the Credit Group Representative determines to be reasonable and which shall not have a material adverse impact on reimbursement from third-party payers, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws in existence at the time the Master Indenture became effective or thereafter, limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

(c) Notwithstanding anything in the provisions of the Master Indenture described in this Section to the contrary, the Credit Group Members shall have the right, without giving rise to an Event of Default under the Master Indenture solely on such account, (1) to maintain insurance coverage below that required by the Master Indenture as described in subsection (a) of this Section, if the Credit Group Representative furnishes to the Master Trustee a certificate of the Insurance Consultant that the insurance so provided accords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) to adopt alternative risk management and self-insurance programs described above.

Default and Remedies

Events of Default. Each of the following events shall be an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on or any other Required Payment on any Master Indenture Obligation.

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Master Indenture Obligation) for a period of sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Credit Group Representative by the Master Trustee or to the Credit Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Master Indenture Obligations (provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Credit Group Representative shall diligently proceed to remedy the failure in accordance with and subject to any directions or limitations of time established by the Master Trustee).

(c) Any Obligated Group Member shall default in the payment of Indebtedness (other than (1) Subordinated Indebtedness, (2) Nonrecourse Indebtedness, and (3) Indebtedness secured by a Master Indenture Obligation, which shall be governed by the provisions of the Master Indenture described in subsection (a) of this

Section) in an aggregate outstanding principal amount equal to the greater of one million dollars (\$1,000,000) or one percent (1%) of the aggregate principal amount of all Long-Term Indebtedness of the Obligated Group then Outstanding, and any grace period for such payment shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which any Indebtedness is secured or evidenced, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of the provisions of the Master Indenture described in this Section if, within sixty (60) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (1) any Obligated Group Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(e) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any Related Bond Indenture.

(g) An event of default shall exist under any agreement with the insurer of any Related Bonds or Master Indenture Obligations.

The Credit Group Representative agrees in the Master Indenture that, as soon as practicable, and in any event within ten (10) days after such event, the Credit Group Representative shall notify the Master Trustee of any event which is an Event of Default under the Master Indenture which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall, by notice to the Credit Group Representative, declare all Outstanding Master Indenture Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Master Indenture Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Master Indenture Obligations issued pursuant to such Related Supplement, the Master Indenture Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Master Indenture Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Master Indenture Obligations.

(b) At any time after the Master Indenture Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(i) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Master Indenture Obligations (other than payments then due only because of such declaration); and

(ii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due; and

(iii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group under the Master Indenture; and

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Master Indenture Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Credit Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders under the Master Indenture by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Master Indenture Obligations;

(ii) Civil action upon all or any part of the Master Indenture Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Master Indenture Obligations to account as if it were the trustee of an express trust for the Holders of Master Indenture Obligations;

(iv) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Master Indenture Obligations;

(v) Civil action to obtain a writ of mandate against any Obligated Group Member or Controlling Member, or against any officer or member of the Governing Body any Obligated Group Member or Controlling Member to compel performance of any act specifically required by the Master Indenture or any Master Indenture Obligation; and

(vi) Enforcement of any other right or remedy of the Holders conferred by law or the Master Indenture.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Article of the Master Indenture described in this Section (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Master Indenture Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of the Master Indenture):

First: To the payment of all installments of interest then due on the Master Indenture Obligations, in the order of their due dates, including Senior Financial Product Payments, in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments and Senior Financial Product Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest and Senior Financial Product Payments due on such date, without any discrimination or preference;

Second: To the payment of all installments of principal then due on the Master Indenture Obligations (whether at maturity or by call for redemption), in the order of their due dates and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts due on such date, without any discrimination or preference; and

Third: To the payment of all Subordinate Financial Product Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Master Indenture Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of the Master Indenture):

First: To the payment of the principal and interest and other payments (including Senior Financial Product Payments but excluding Subordinate Financial Product Payments) then due and unpaid on the Master Indenture Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment or payment over any other installment or payment or of any Master Indenture Obligation over any other Master Indenture Obligation, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Subordinate Financial Product Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Payments due on such date, without any discrimination or preference.

Supplements and Amendments

Supplements Not Requiring Consent of Holders.

The Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

(i) To correct any ambiguity or formal defect or omission in the Master Indenture which does not materially and adversely affect the interests of the Holders;

(ii) To correct or supplement any provision which may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising under the Master Indenture and which does not materially and adversely affect the interests of the Holders;

(iii) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Group Members;

(iv) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;

(v) To create and provide for the issuance of a Master Indenture Obligation or Series of Master Indenture Obligations as permitted under the Master Indenture;

(vi) To obligate a successor to any Obligated Group Member as provided in the Master Indenture; or

(vii) To add a new Obligated Group Member as provided in the Master Indenture.

Supplements Requiring Consent of Holders.

Other than Related Supplements and subject to the terms contained in the Master Indenture, the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations shall have the right to consent to and approve the execution by the Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained in the Master Indenture; provided, however, that nothing shall permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Master Indenture Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on or reduce any other Required Payment on any Master Indenture Obligation without the consent of the Holder of such Master Indenture Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Master Indenture Obligations in default to compel the Master Trustee to declare the principal of all Master Indenture Obligations to be due and payable, without the consent of the Holders of all Outstanding Master Indenture Obligations; or

(iii) Reduce the aggregate principal amount of Outstanding Master Indenture Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Master Indenture Obligations then Outstanding.

The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(i) a Request of the Credit Group Representative to enter into such Related Supplement; and

(ii) a certified copy of the resolution of the Governing Body of the Credit Group Representative approving the execution of such Related Supplement; and

(iii) the proposed Related Supplement; and

(iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Master Indenture Obligations specified in the Master Indenture for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

Any such consent shall be binding upon the Holder of the Master Indenture Obligation giving such consent and upon any subsequent Holder of such Master Indenture Obligation and of any Master Indenture Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Master Indenture Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Master Indenture Obligation or Master Indenture Obligations are transferable by delivery, proof that such Master Indenture Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Master Indenture Obligations shall have filed their consents to the Related

Supplement, the Master Trustee shall file a written statement to that effect with the Credit Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

If the Holders of the required principal amount or number of the Outstanding Master Indenture Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Credit Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge of Master Indenture

The Master Indenture shall cease to be of further effect if: (a) all Master Indenture Obligations previously authenticated (other than any Master Indenture Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or (b) all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or (c) a deposit is made in trust with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between an Obligated Group Member and such bank or trust company in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and all other sums payable under the Master Indenture by the Obligated Group Members are also paid.

SUPPLEMENT NO. 5

General

Supplement No. 5 provides for the issuance of Obligation No. 5 pursuant to the Master Indenture, and provides the terms and form thereof.

The following is a summary of certain provisions of Supplement No. 5. This Summary of Principal Documents does not purport to be complete or definitive and reference is made to Supplement No. 5 for the complete terms thereof.

Payments on Obligation No. 5; Credits

Principal of and interest and any redemption premium on Obligation No. 5 are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in the following paragraph with respect to credits, and in the section described under the heading "Prepayment of Obligation No. 5," payments on the principal of and premium, if any, and interest on Obligation No. 5 shall be made at the times and in the amounts specified in Obligation No. 5 by the Members depositing the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable (or the next succeeding business day if such date is a Saturday, Sunday or bank holiday in the city in which the principal corporate trust office of the Bond Trustee is located), and giving notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Obligation No. 5, specifying the amount paid, identifying such payment as a payment on Obligation No. 5 and identifying the Obligated Group Member on whose behalf such payment is made.

The Members shall receive credit for payment on Obligation No. 5, in addition to any credits resulting from payment or prepayment from other sources, as follows: (a) on installments of interest on Obligation No. 5 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 5; (b) on installments of principal of Obligation No. 5 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 5; (c)

on installments of principal and interest, respectively, on Obligation No. 5 in an amount equal to the principal amount of the Bonds for the redemption of which sufficient amounts (as determined by the Bond Indenture) in cash or United States Government Obligations, as defined in the Bond Indenture, are on deposit as provided in the Bond Indenture to the extent such amounts have not been previously credited against payments on Obligation No. 5, and the interest on the Bonds from and after the date fixed for payment at maturity or redemption thereof, such credits shall be made against the installments of principal of and interest on Obligation No. 5 which would have been used, but for such call for redemption, to pay principal of and interest on the Bonds when due at maturity; and (d) on installments of principal and interest, respectively, on Obligation No. 5 in an amount equal to the principal amount of the Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and canceled, and the interest on the Bonds from and after the date interest thereon has been paid prior to cancellation, such credits shall be made against the installments of principal of and interest on Obligation No. 5 which would have been used, but for such cancellation, to pay principal of and interest on the Bonds when due.

Prepayment of the Obligation No. 5

So long as all amounts which have become due under Obligation No. 5 have been paid, the Members shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 5. Prepayments may be made by payments of cash, or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of the Bonds) shall be deposited and applied in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding under the Bond Indenture or any additional payments required to be made under Supplement No. 5 remain unpaid, the Members shall not be relieved of their obligations under Supplement No. 5. Prepayments made under Supplement No. 5 shall be credited against amounts to become due on Obligation No. 5 as provided in Supplement No. 5 and the Loan Agreement. The Members may also prepay all of the Required Payments under Obligation No. 5 by providing for the payment of Bonds in accordance with the Bond Indenture.

Registration, Number, Negotiability and Transfer of Obligation No. 5

Except as described in the next sentence, so long as any Bond remains outstanding, Obligation No. 5 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Bond Trustee and no transfer of Obligation No. 5 shall be registered under the Master Indenture except for transfers to a successor Bond Trustee. Upon the principal of all Master Indenture Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 5 may be transferred, if and to the extent the Bond Trustee requests that the restrictions described in the preceding sentence on transfers be terminated.

Right to Redeem

Obligation No. 5 shall be subject to redemption, in whole or in part, prior to maturity, at the times and in the amounts applicable to redemption of the Bonds as specified in the Bond Indenture and the moneys provided in Supplement No. 5; provided that in no event shall Obligation No. 5 be redeemed unless a corresponding amount of Bonds is redeemed.

BOND INDENTURE

General

The Bond Indenture sets forth the terms of the Bonds, the nature and extent of security, the various rights of the Holders of the Bonds, the rights, duties and immunities of the Bond Trustee and the rights and obligations of the City. Certain provisions of the Bond Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS."

The following is a summary of certain provisions of the Bond Indenture. This Summary of Principal Documents does not purport to be complete or definitive and reference is made to the Bond Indenture for the complete terms thereof.

Establishment of Funds and Accounts

The Bond Indenture creates a Revenue Fund (containing an Interest Account and a Principal Account), a Redemption Fund (containing an Optional Redemption Account and a Special Redemption Account), a Rebate Fund, a Costs of Issuance Fund, and a Credit Facility Fund all of which are to be held by the Bond Trustee. The Bond Indenture also creates a Bond Purchase Fund (containing a Remarketing Proceeds Account, a Liquidity Facility Account and a Corporation Purchase Account) held by the Tender Agent. References to funds and accounts in this summary of the Bond Indenture shall be deemed to be references to the funds and accounts established under the Bond Indenture.

Pledge and Assignment

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, there are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, all of the Revenues and any other amounts held in any fund or account established pursuant to the Bond Indenture (other than the Bond Purchase Fund and the Rebate Fund).

Revenue Fund

All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee is directed to establish, maintain and hold in trust, except as otherwise provided in the Bond Indenture and except that all moneys received by the Bond Trustee and required by the Loan Agreement or Obligation No. 5 to be deposited in the Bond Purchase Fund or the Redemption Fund shall be promptly deposited in such funds. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture.

Allocation of Revenues

On or before the dates specified below, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective funds and accounts the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority: (1) to the Interest Account, on or before each Interest Payment Date, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest; (2) to the Principal Account, on or before each Sinking Fund Installment Date, the amount of the Sinking Fund Installment becoming due and payable on such date until the balance in said account is equal to said amount of such Sinking Fund Installment; and (3) to the Rebate Fund, such amounts as are required to be deposited therein by the Bond Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

Application of Interest Account

All amounts in the Interest Account established under the Bond Indenture shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity from funds on deposit in the Principal Account or the Redemption Fund pursuant to the Bond Indenture) or to reimburse the applicable Credit Facility Provider (if any) for drawings made under any Credit Facility for such purpose.

Application of Principal Account

All amounts in the Principal Account established under the Bond Indenture shall be used and withdrawn by the Bond Trustee solely for the purpose of purchasing or redeeming or paying Sinking Fund Installments or pay at maturity the Bonds as described in the Bond Indenture or to reimburse the applicable Credit Facility Provider (if any) for drawings made under any Credit Facility for such purposes.

Application of Redemption Fund

All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively or to reimburse the applicable Credit Facility Provider for drawings made under any Credit Facility for such purpose; provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account that constitute Available Moneys may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation.

Rebate Fund

To the extent required by the Bond Indenture and the Tax Agreement, certain amounts will be deposited in the Rebate Fund, and thereafter paid to the federal government to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement). Any moneys remaining in the Rebate Fund after the payment of all such amounts, or provision made therefor, will be remitted to the Corporation.

Bond Purchase Fund

Moneys paid to the Tender Agent for the purchase of tendered or deemed tendered Bonds received from (i) the Remarketing Agent shall be deposited in the Remarketing Proceeds Account, (ii) payments pursuant to a Liquidity Facility, if any, shall be deposited in the Liquidity Facility Account, and (iii) the Corporation or any Member shall be deposited in the Corporation Purchase Account. Moneys in the Liquidity Facility Account, the Corporation Purchase Account and the Remarketing Proceeds Account shall not be commingled with other funds held by the Tender Agent and shall remain uninvested. The Tender Agent shall hold all Bonds delivered to it under the Bond Indenture in trust for the benefit of the Holders which shall have so delivered the Bonds until moneys representing the Purchase Price of the Bonds have been delivered to such Holder in accordance with the provisions of the Bond Indenture and until the Bonds are delivered by the Tender Agent in accordance with the Bond Indenture.

Credit Facility; Credit Facility Fund

The Bond Trustee shall hold and maintain each Credit Facility (if any) for any Series of Bonds for the benefit of the Holders of Bonds of such Series until such Credit Facility expires in accordance with its terms. Subject to the provisions of the Bond Indenture, the Bond Trustee shall enforce all terms, covenants and conditions of each Credit Facility for the Series of Bonds then secured by such Credit Facility, including payment when due of any draws on such Credit Facility, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, such Credit Facility, and will not consent to, agree to or permit any amendment or modification of such Credit Facility which would materially adversely affect the rights or security of the Holders of Bonds such Series then so secured. If a Credit Facility secures more than one Series of Bonds at any time, the Trustee shall account for proceeds drawn thereunder separately for each Series. The Trustee shall only use proceeds

of a Credit Facility to make payments with respect to a Series then secured thereunder. If at any time during the term of a Credit Facility any successor Bond Trustee shall be appointed and qualified under the Bond Indenture, the resigning or removed Bond Trustee shall request that the Credit Facility Provider transfer such Credit Facility to the successor Bond Trustee. If the resigning or removed Bond Trustee fails to make this request, the successor Bond Trustee shall do so and shall delay accepting appointment hereunder until the Credit Facility Provider assents to such request. When a Credit Facility expires in accordance with its terms or is replaced by an Alternate Credit Facility, the Bond Trustee shall immediately surrender such Credit Facility to the Credit Facility Provider, provided, however, that the Bond Trustee shall not surrender such Credit Facility until all draws upon such Credit Facility in accordance with its terms and as required hereby shall have been funded. All provisions in the Bond Indenture relating to the rights of any Credit Facility Provider shall be of no force and effect if there is no Credit Facility or Alternate Credit Facility in effect with respect to a Series of Bonds. Any reference in the Bond Indenture to the Credit Facility or Liquidity Facility shall mean the particular Credit Facility and/or Liquidity Facility in effect with respect to each Series of Bonds and the rights and duties of any Credit Facility Provider or Liquidity Facility Provider shall mean only such entities with respect to any Series of Bonds then in effect.

Notwithstanding any other provision of the Indenture, unless a Credit Facility Provider Failure has occurred and is continuing, the principal and Redemption Price of and interest on the Bonds of a Series shall be paid solely with Available Moneys. While a Credit Facility is in effect with respect to any Bonds, the Bond Trustee shall, on the Business Day preceding each Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such Bonds is due), draw on the Credit Facility in accordance with the terms thereof so as to receive thereunder by the time set forth in the Bond Indenture on said Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such bonds is due), an amount, in immediately available funds, equal to the amount of interest and principal payable on such Bonds on such Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such Bonds is due). If the Credit Facility Provider fails to fund such a draw the Bond Trustee shall promptly notify the Corporation and shall pay when due such amount of interest and principal payable on such Bonds on such Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such Bonds is due) in accordance with the terms of this Bond Indenture. The proceeds of such draws shall be deposited in the Credit Facility Fund and shall be applied to pay principal of and interest on the Bonds prior to the application of any other funds held by the Bond Trustee therefor. Notwithstanding the foregoing, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, the Bond Trustee shall not draw on the Credit Facility with respect to any payments due or made in connection with Liquidity Facility Bonds. In no event shall the Bond Trustee draw on the Credit Facility with respect to any payments made in connection with Bonds not covered by the Credit Facility or Bonds owned by the Corporation or any Obligated Group Member.

The Bond Trustee shall deposit in the Credit Facility Fund all moneys derived from a drawing under a Credit Facility for the purpose of paying the principal of and interest on Bonds subject to such Credit Facility when due. Moneys held in the Credit Facility Fund shall be held separate and apart from all other funds and accounts and shall not be commingled with any other moneys. Moneys in the Credit Facility Fund shall be withdrawn by the Bond Trustee from the Credit Facility Fund and applied to the payment of the principal of and interest on Bonds subject to such Credit Facility on each Sinking Fund Installment Date for such Bonds (or other date upon which principal of such Bonds is due) and Interest Payment Date for such Bonds, provided that such moneys shall not be used to pay the principal of or interest on Bonds not covered by the Credit Facility or Bonds owned by any Obligated Group Member.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Bond Indenture (other than the Credit Facility Fund and the Bond Purchase Fund) shall be invested by the Bond Trustee, upon direction of the Corporation, solely in certain investment securities as further described in the Bond Indenture.

Interest Rates and Rate Periods

The term of each Series of the Bonds shall be divided into consecutive Interest Rate Periods selected by the Corporation in the manner provided in the Bond Indenture during each of which such Bonds shall bear interest at interest rates determined in the manner described in the Bond Indenture. The Bonds shall bear interest at either a

Serial Bond Interest Rate, a Bond Interest Term Rate, a Weekly Interest Rate or an Auction Period Rate; provided, however, that no Bond shall bear interest in excess of the Maximum Interest Rate.

The initial Interest Rate Period for the Bonds shall be Weekly Interest Rate Period commencing on the Date of Issuance of the Bonds. After the initial Weekly Interest Rate Period for each Series of Bonds, such Bonds will be subject to mandatory tender for purchase as described in this Official Statement and in this APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS under the caption “BOND INDENTURE – Mandatory Tender for Purchase on First Day of Each Interest Rate Period.”

Adjustment to an Alternate Interest Rate Period

The Corporation may elect that the Bonds of any Series will be adjusted to an alternate Interest Rate Period, subject to the satisfaction of certain conditions specified in the Bond Indenture, including delivery of a Favorable Opinion of Bond Counsel. Upon election by the Corporation to convert the Bonds of any Series to a different Interest Rate Period and satisfaction of the conditions specified in the Bond Indenture, all of the Bonds of such Series will be subject to the alternate Interest Rate Period. The written election must specify (i) the proposed effective date of the adjustment to any alternate Interest Rate Period and (ii) the date of delivery for the Bonds to be purchased on the effective date of the interest rate adjustment. In addition, the direction of the Corporation shall be accompanied by a letter of Bond Counsel stating that it expects to deliver a Favorable Opinion of Bond Counsel on the effective date of the adjustment to an alternate Interest Rate Period. A change to any alternate Interest Rate Period may not take place unless a Favorable Opinion of Bond Counsel is delivered on the effective date of the alternate Interest Rate Period.

The Bond Trustee is required to give notice of adjustment to any alternate Interest Rate Period to the Holders not less than 10 days prior to the proposed effective date of the alternate Interest Rate Period. **While the Bonds are registered in the name of Cede & Co., such notice shall be given only to DTC, and not to any Beneficial Owner of the Bonds.** Such notice will state (i) that the interest rate on the Bonds will be adjusted to another Interest Rate Period, as appropriate, unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the proposed effective date of the adjustment or any other condition precedent to the adjustment has not been satisfied; (ii) the proposed effective date of the alternate Interest Rate Period; and (iii) that the Bonds are subject to mandatory tender for purchase on the proposed effective date of the alternate Interest Rate Period regardless of whether any or all of the preconditions to the adjustment are met, the Purchase Price and the place of delivery for purchase of such Bonds.

If notice of adjustment has been mailed to the Holders of the Bonds and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as in the Bond Indenture described or if other conditions precedent to the adjustment have not been satisfied, the Bonds of any Series shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the adjustment and the subject Series shall bear interest at the Weekly Interest Rate, unless the failed condition to Conversion is due to insufficient funds to pay the purchase price, in which case there shall be an event of default and the interest rate shall accrue at the Maximum Interest Rate from the date of the failed tender until the payment of the purchase price.

Notwithstanding anything described under this heading “BOND INDENTURE – Adjustment to an Alternate Interest Rate Period,” in connection with any Conversion of the Interest Rate Period for a Series of Bonds, the Corporation shall have the right to deliver to the Bond Trustee, the Credit Facility Provider (if any), the Remarketing Agent, the Tender Agent, the Liquidity Facility Provider (if any) and the City, on or prior to the time set forth in the Bond Indenture, on the second Business Day preceding the effective date of any such Conversion a notice to the effect that the Corporation elects to rescind its election to make such Conversion. If the Corporation rescinds its election to make such Conversion, then the Interest Rate Period shall not be converted and the Bonds of any Series shall continue to bear interest as otherwise detailed in the Indenture.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period

Eligible Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period with respect to such Bonds, or, on the day which would have been the first day of an Interest Rate Period for such Bonds had there been no occurrence of an event which resulted in the interest rate on the Bonds not being

adjusted, at the Purchase Price, payable in immediately available funds (which, while a Credit Facility is in effect with respect to such Bonds, shall be Available Moneys). Payment of the Purchase Price of any Bond shall be made on the Purchase Date upon surrender of the Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney with the signature of the Holder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for delivery in the notice described in the Bond Indenture.

Replacement of Obligation No. 5

At the option of the Corporation, the Obligation No. 5 shall be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee of all of the following:

- (1) a Request of the Corporation requesting such surrender and delivery and stating that the Corporation has become a member of an obligated group under a master indenture (other than the Master Indenture) or has obligated itself pursuant to another form of indebtedness security arrangement, and that an obligation is being issued to the Bond Trustee under such replacement master indenture or security arrangement ("Replacement Arrangement");
- (2) a properly executed obligation (the "Replacement Obligation") issued under the Replacement Arrangement and registered in the name of the Bond Trustee with the same tenor and effect as Obligation No. 5, duly authenticated by the master trustee under the Replacement Arrangement;
- (3) an Opinion of Counsel to the effect that the Replacement Obligation has been validly issued under the Replacement Arrangement and constitutes a valid and binding obligation of the Corporation and each other member of the obligated group under the Replacement Arrangement;
- (4) a copy of the Replacement Arrangement, certified as a true and accurate copy by the master trustee under the Replacement Arrangement; and
- (5) written confirmation from each Rating Agency then rating the Bonds that the replacement of Obligation No. 5 in accordance with the provisions of the Bond Indenture will not, by itself, result in a reduction in the then-current ratings on the Bonds; and
- (6) the written consent of the Credit Provider (if any).

Upon satisfaction of such conditions, all references in the Bond Indenture and in the Loan Agreement to Obligation No. 5 shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Arrangement, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Arrangement, all references to the Obligated Group and the Members shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Arrangement and all references to Supplement No. 5 shall be deemed to be references to the document pursuant to which the Replacement Obligation is issued.

Continuing Disclosure

Pursuant to the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the City shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of the Bond Indenture, failure of the Corporation or the Dissemination Agent (as defined in the Continuing Disclosure Certificate) to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of the Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Holder or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement or to cause the Bond Trustee to comply with its obligations under the Bond Indenture. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Events of Default

Each of the following is an Event of Default under the Bond Indenture: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amounts and at the times provided therefor; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) failure by the Corporation to pay the Purchase Price of any Bond tendered or subject to mandatory tender pursuant to the Bond Indenture; (d) default in any material respect by the City in the observance of any of the other covenants, agreements or conditions on its part contained in the Bond Indenture or in the Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City and the Corporation by the Bond Trustee, or to the City, the Corporation and the Bond Trustee by the Credit Facility Provider (if any) and the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; (e) a Loan Default Event or (f) receipt by the Bond Trustee of notice from the Credit Facility Provider (if any) that an Event of Default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and which notice directs the Bond Trustee to accelerate the Bonds. Upon actual knowledge of the existence of any Event of Default, the Bond Trustee and the City shall notify the Corporation, the City, the Credit Facility Provider (if any), the Master Trustee and the Bond Trustee in writing as soon as practicable; provided, however, that the Bond Trustee or the City need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the City, the Credit Facility Provider (if any), and the Master Trustee.

Acceleration of Maturities

If any Event of Default has happened and is continuing, the Bond Trustee may take the following remedial steps: (a) In the case of an Event of Default described in the preceding paragraph, the Bond Trustee may, with the written consent of the Credit Facility Provider (if any), and upon written direction of the Credit Facility Provider (if any) shall, notify the City and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 5 and request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 5; (b) In the case of an Event of Default described in clause (d) of the preceding paragraph, the Bond Trustee may, with the written consent of the Credit Facility Provider (if any), take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the City with any covenant, condition or agreement by the City under the Bond Indenture; and (c) In the case of an Event of Default described in clause (e) of the preceding paragraph, the Bond Trustee may, with the written consent of the Credit Facility Provider (if any), take whatever action the City would be entitled to take, and shall take whatever action the City would be required to take, pursuant to the Loan Agreement, in order to remedy the Loan Default Event.

Upon a declaration of acceleration pursuant to the Bond Indenture, interest on Bonds (other than Liquidity Facility Bonds) shall immediately cease to accrue and the Bond Trustee shall immediately draw on the Credit Facility in accordance with its terms, as provided in the Bond Indenture, in an amount sufficient to pay principal and interest on Bonds subject to such Credit Facility, and shall immediately apply the proceeds of such draw to the payment of such Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal (including any Sinking Fund Installments) or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the

declaration of acceleration of Obligation No. 5 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor (provided that if a Credit Facility was drawn upon in connection with such Event of Default, such Credit Facility has been reinstated and in the case of an Event of Default described in clause (f) of the immediately preceding section of this Summary, the notice provided by the Credit Facility Provider has been rescinded by the Credit Facility Provider), then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of the Bonds and with the consent of the Credit Facility Providers, if any, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Bond Trustee to Represent Bondholders

If any Event of Default has occurred and is continuing or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of 25% in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in such Holders under the Bond Indenture, the Loan Agreement, Obligation No. 5, the Law or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Bond Indenture, pending such proceedings.

Credit Facility Provider's and Bondholders' Direction of Proceedings

The Credit Facility Provider (if any) or if a Credit Facility Provider Failure has occurred and is continuing or, if there is no Credit Facility Provider, Holders of a majority in aggregate principal amount of the Bonds then Outstanding under the Bond Indenture shall, have the right, upon indemnifying the Bond Trustee to its satisfaction, to direct the method of conducting all remedial proceedings by the Bond Trustee under the Bond Indenture, provided such direction shall not be otherwise than in accordance with law or the provisions of the Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, Obligation No. 5, the Law or any other applicable law with respect to such Bond unless (a) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default, (b) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted to it under the Bond Indenture or to institute such suit, action, proceeding in its own name; provided, however, that if more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%, (c) such Holder or said Holders shall have tendered to the Bond Trustee indemnity satisfactory to it against costs, expenses and liabilities, (d) the Bond Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and the tender of indemnity shall have been made to, the Bond Trustee, and (e) the Credit Facility Provider (if any) shall have consented in writing to such action.

Modification or Amendment of Bond Indenture

The Bond Indenture may be modified or amended from time to time without the necessity of obtaining the consent of the Holders, but with the consent of the Corporation and the Credit Facility Provider (if any) with respect

to any Series affected by such change, in accordance with the provisions of the Bond Indenture and for one or more of the following purposes: (a) to add covenants of the City, to pledge or assign additional security for the Bonds or to surrender any right or power in the Bond Indenture reserved to or conferred upon the City, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (b) to cure any ambiguity, inconsistency or omission as or to cure or correct any defective provision, the City or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (c) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds; (d) to evidence or give effect to, or to conform to the terms and conditions of, any Liquidity Facility; (e) to evidence or give effect to, or conform to the terms and provisions of, any insurance policy, letter of credit or credit enhancement for the Bonds; (f) to facilitate and implement any book-entry system (or any termination of a book-entry system) with respect to the Bonds; (g) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or (h) to make any modification or amendment to the Bond Indenture with respect to a Series of Bonds which will be effective upon the remarketing of such Series of Bonds following the mandatory tender of such Series of Bonds pursuant to the Bond Indenture upon the Conversion of the Interest Rate Period for such Bonds.

The Bond Indenture may be modified or amended from time to time, in accordance with the Bond Indenture, by a Supplemental Bond Indenture with the written consent of the written consent of the Corporation and (1) the Credit Facility Provider (if any) as to any Series then secured by the related Credit Facility, or (2) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider with respect to such Series, the Holders of a majority in aggregate principal amount of such Bonds then Outstanding shall have been filed with the Bond Trustee; provided, that no such modification or amendment shall (a) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable thereon, or change the purchase price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding.

Amendment of Loan Agreement

Except as provided in the immediately succeeding paragraph, the City shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, unless the written consent of (i) the Credit Facility Provider (if any) or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the City or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

The terms of the Loan Agreement may also be modified or amended from time to time and at any time by the City, with the consent of the Credit Facility Provider (if any), without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the City or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the City or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the City may deem necessary or desirable

and not inconsistent with the Loan Agreement or the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility; (4) to evidence or give effect to, or to conform to the terms and provisions of, any Credit Facility; (5) to maintain the exclusion from gross income of interest payable with respect to the Bonds; (6) to make any modification or amendment to the Loan Agreement with respect to a Series of Bonds which will be effective upon the remarketing of such Series of Bonds following the mandatory tender of such Series of Bonds pursuant to the Bond Indenture upon the Conversion of the Interest Rate Period for such Bonds; and (7) to make any modification or amendment that, if it was a change made to or under the Indenture, would not require consent of Bondholders.

Defeasance

The Bonds may be paid by the City or the Bond Trustee on behalf of the City in any of the following ways: (a) by paying or causing to be paid (with respect to a Series of Bonds for which a Credit Facility is in effect, with Available Moneys) the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys (with respect to a Series of Bonds for which a Credit Facility is in effect, with Available Moneys) or securities (with respect to a Series of Bonds for which a Credit Facility is in effect, purchased with Available Moneys) in the necessary amount (as provided in the Bond Indenture) to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

Limited Liability of the City

Notwithstanding anything contained in the Bond Indenture or in the Bonds, the City shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Bond Indenture for any of the purposes in the Bond Indenture, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Bond Indenture. The City may, but shall not be required to, advance for any purposes under the Bond Indenture any funds of the City that may be made available to it for such purposes.

LOAN AGREEMENT

The Loan Agreement provides the terms of a loan of the proceeds of the Bonds by the City to the Corporation and the repayment of such loan by the Corporation.

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and reference is made to the Loan Agreement for the complete terms thereof.

Loan Repayments

The Corporation agrees to pay, or cause to be paid, "Loan Repayments" in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts described in the Bond Indenture to be made to the Revenue Fund. Notwithstanding the foregoing, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or Redemption Price of or interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Additional Payments

The Corporation also agrees to pay certain Additional Payments in connection with the issuance of the Bonds, including all taxes and assessments charged to the City or the Bond Trustee, all reasonable fees, charges, expenses and indemnities of the City and the Bond Trustee under the Loan Agreement and under the Bond Indenture, of the Tender Agent (if any) under the Bond Indenture, of the Liquidity Facility Provider (if any) under the Liquidity Facility (if any), the Credit Facility Provider (if any) under the Bond Indenture, and the reasonable fees

and expenses of accountants, consultants or other experts engaged by the City and the Bond Trustee and all other reasonable and necessary fees and expenses attributable to the Loan Agreement, the Bond Indenture, the Tax Agreement, Supplement No. 5 or Obligation No. 5.

Prepayment

The Corporation shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments and the City agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt at the Corporation's direction in accordance with the provisions of the Loan Agreement and at the request of and as determined by the Corporation, credited against payments due under the Loan Agreement or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Master Indenture and the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation shall not be relieved of its obligations under the Loan Agreement.

Payment of Purchase Price of Purchased Bonds

If no Liquidity Facility is in effect for the purchase of Bonds of any Series or if the Liquidity Facility Provider for a Series of Bonds has not paid the full amount required by the Bond Indenture at the times required by the Bond Indenture, the payment of the Purchase Price of such bonds as required by the Bond Indenture at the times required under the Bond Indenture, the Corporation shall pay, to the Tender Agent all amounts necessary for the purchase of Bonds of such Series, on the Purchase Date pursuant to the Bond Indenture.

Obligations Unconditional

The obligations of the Corporation under the Loan Agreement and under Obligation No. 5 are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 5, Obligation No. 5, the Master Indenture or the Bond Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation: (a) will pay all amounts required under the Loan Agreement without abatement, deduction or setoff except as otherwise expressly provided in the Loan Agreement; (b) will not suspend or discontinue any payments due under the Loan Agreement and under Obligation No. 5 for any reason whatsoever, including, without limitation, any right of setoff or counterclaim; (c) will perform and observe all its other agreements contained in the Loan Agreement; and (d) except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the financed or refinanced facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either or any failure of the City to perform and observe any agreement, whether express or implied, duty, liability or obligation arising out of or connected with the Loan Agreement. Nothing contained in the Loan Agreement shall be construed to release the City from the performance of any of the agreements on its part, contained in the Loan Agreement, and in the event the City should fail to perform any such agreement on its part, the Corporation may institute such action against the City as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee, or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the City, the Master Trustee, or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the City, the Master Trustee or by the Bond Trustee to the Corporation.

Events of Default

Each of the following events shall be a Loan Default Event under the Loan Agreement: (1) failure by the Corporation to pay in full any payment required by the Loan Agreement or Obligation No. 5 when due; (2) if any material representation or warranty made by the Corporation or any Member in any document, instrument or certificate furnished to the Bond Trustee or the City in connection with the issuance of Obligation No. 5 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made; (3) if the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed for a period of 60 days after written notice specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the City, the Credit Facility Provider (if any) or the Bond Trustee, except that, if such failure or breach can be remedied but not within such 60-day period, such failure shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Bond Trustee with the written consent of the Credit Facility Provider (if any); (4) files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities; (5) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof; (6) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control; (7) if the Corporation shall abandon the Corporation's facilities or any substantial part thereof and such abandonment shall continue for a period of 60 days after written notice thereof shall have been given to the Corporation by the City or the Bond Trustee; and (8) any Event of Default under the Bond Indenture or the Master Indenture shall occur and is continuing.

Remedies on Default

If a Loan Default Event shall occur under the Loan Agreement, the Bond Trustee on behalf of the City, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, among other things, declare all installments of Loan Repayments payable for the remainder of the term of the Loan Agreement to be immediately due and payable. The City or the Bond Trustee may also take any action, at law or in equity, to collect the payment required under the Loan Agreement then due or to otherwise enforce the performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Amendments to Loan Agreement

The Loan Agreement may be amended, changed or modified only as provided in the Bond Indenture.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery of Bonds]

City of Newport Beach
Newport Beach, California 92658

Re: City of Newport Beach Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian),
Series 2008D, Series 2008E and Series 2008F
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Newport Beach (the “City”) in connection with the issuance of \$250,000,000 aggregate principal amount of its Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian), Series 2008D, Series 2008E and Series 2008F (collectively, the “Bonds”), issued pursuant to the provisions of Ordinance No. 85-23 and 84-4 adopted by the City Council of the City on February 13, 1984, under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 200 of Article II of the Charter of the City, a resolution adopted by the City Council on April 22, 2008 and a Bond Indenture dated as of May 1, 2008 (the “Bond Indenture”), between the City and Wells Fargo Bank, National Association, as bond trustee (the “Bond Trustee”). The Bond Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Hoag Memorial Hospital Presbyterian (the “Corporation”) pursuant to a Loan Agreement dated as of May 1, 2008 (the “Loan Agreement”), between the City and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture; the Loan Agreement; the Tax Certificate and Agreement, dated the date hereof (the “Tax Certificate and Agreement”), between the City and the Corporation; opinions of counsel to the City and the Corporation; certificates of the City, the Bond Trustee, the Corporation, and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Indenture, the Loan Agreement and the Tax Certificate and Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture, the Loan Agreement and the Tax Certificate and Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Bond Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the City.
2. The Bond Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Bond Trustee in any fund or account established pursuant to the Bond Indenture, except the Rebate Fund and the Bond Purchase Fund, subject to the provisions of the Bond Indenture.
3. The Loan Agreement has been duly executed and delivered by, and constitutes the valid and binding agreement of, the City.
4. The Bonds are not a lien or charge upon the funds or property of the City except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Hoag Memorial Hospital Presbyterian (“Hospital”), a nonprofit public benefit corporation duly organized and existing under the laws of the State of California in connection with the execution and delivery of \$250,000,000 City of Newport Beach Refunding Revenue Bonds (Hoag Memorial Hospital Presbyterian) 2008D, 2008E and 2008F (the “Bonds”). The Bonds are being issued pursuant to a bond indenture, dated as of May 1, 2008 (the “Indenture”), between the City of Newport Beach (the “City”) and Wells Fargo Bank, National Association, as Trustee. The proceeds of the Bonds are being loaned by the City to Hospital pursuant to a loan agreement, dated as of May 1, 2008 (the “Loan Agreement”), between the City and the Hospital. The Hospital covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Hospital for the benefit of the Holders and Beneficial Owners of the Bonds. The Hospital acknowledges that the City has not undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Certificate, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Hospital pursuant to, and as described in, Section 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” or “Holder” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean any Dissemination Agent designated in writing by the Hospital.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at <http://www/sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2 12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports. The Hospital shall, or shall cause the Dissemination Agent to, not later than six months following the end of its fiscal year (which fiscal year as of the date hereof ends August 31, 2008), commencing with the report for the 2008 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report may

be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Hospital's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4.

SECTION 4. Content of Annual Reports. The Hospital's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligated Group (which may be the audited financial statements of the Hospital consolidated with its Wholly-Owned Subsidiaries (as defined in Appendix A of the Official Statement) and/or affiliates for the prior fiscal year, audited by a firm of nationally recognized independent certified public accountants approved by the Hospital as having been prepared in accordance with generally accepted accounting principles (except in the case of special purpose financial statements, for required consolidations).

If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement (defined below), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless a single financial statement (including a single special purpose financial statement) is delivered pursuant to clause (a) above for the Obligated Group, an unaudited combined balance sheet and an unaudited combined statement of operations for such fiscal year for the Obligated Group, prepared by the Hospital; provided, if the Hospital is the only Member of the Obligated Group during the applicable fiscal year, such unaudited statement may include operations of the Hospital and its Wholly-Owned Subsidiaries.

(c) An update of the following information contained in Appendix A to the Official Statement, dated May 12, 2008 (the "Official Statement"), related to the Bonds:

1. List of Obligated Group Members;
2. Updated information provided in tabular form under the caption "MEDICAL STAFF";
3. Updated information provided in tabular form under the heading "Sources of Patient Service Revenue," for the most recent fiscal year;
4. Updated information provided in tabular form under the heading "Historical Utilization;"
5. Updated information provided in tabular form under the heading "Capitalization" presenting the actual capitalization of the Hospital and its Wholly-Owned Subsidiaries for the most recent fiscal year;
6. Updated information provided in tabular form under the heading "Estimated Debt Service Coverage," with no pro forma adjustments, for the Hospital and its Wholly-Owned Subsidiaries for the most recent fiscal year; and
7. Number of employees and percentage of employees subject to collective bargaining agreements.

SECTION 5. Reporting of Significant Events. The Hospital shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. modifications to rights of Bondholders;
8. optional, contingent or unscheduled bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

SECTION 6. Manner of Filing. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 7. Termination of Reporting Obligation. The Hospital’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Hospital’s obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Hospital and the Hospital shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Hospital shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The Hospital may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Hospital pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty (30) days written notice to the Hospital. If at any time there is not any other designated Dissemination Agent, the Hospital shall be the Dissemination Agent. The initial Dissemination Agent shall be the Hospital.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Hospital may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Hospital which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied

(a) If the amendment or waiver relates to the provisions of Sections 3, 5 or 7, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Hospital shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Hospital. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Hospital from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Hospital chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Hospital shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Hospital or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the Trustee may, (and, at the written request of the Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds, shall) or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Hospital or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or Loan Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Hospital or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Notices. Any notices or communications to the Hospital may be given as follows:

One Hoag Drive
P.O. Box 6100
Newport Beach, CA 92658-6100
Attention: President

The Hospital may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if any), the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: _____, 2008.

HOAG MEMORIAL HOSPITAL PRESBYTERIAN

Authorized Representative

APPENDIX F

BOOK-ENTRY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX D HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE CITY, HOAG HOSPITAL, NHC, THE UNDERWRITER OR THE BOND TRUSTEE AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS REOFFERING CIRCULAR.

The Depository Trust Company (“DTC”) New York, NY, acts as securities depository for the Bonds. The Bonds will be offered as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each Series of the Bonds, each in the aggregate principal amount of such Series, and deposited with DTC.

DTC, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are however expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of a Series of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds of such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Bond Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, its nominee, the Bond Trustee, Hoag Hospital, the Members of the Obligated Group, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered (in the appropriate Interest Rate Period and subject to the terms of the Indenture), through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to any Series of the Bonds at any time by giving reasonable notice to the City or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates for such Bonds will be printed and delivered to DTC.

THE BOND TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS OF A SERIES, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS OF SUCH SERIES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY SUCH NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS OF SUCH SERIES CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The City, Hoag Hospital, NHC, and the Bond Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal or purchase price of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, Hoag Hospital, NHC or the Bond Trustee is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series Bonds or any error or delay relating thereto.

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